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Elite agency in the growth of offshore business services in Romania

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Abstract

Processes of outsourcing and offshoring have driven the changing spatial divisions of labour through foreign investment and development of peripheral regions into key offshore destinations for business services. This paper focuses on the role of elites, transnational and domestic, in the transformation of Romania into a major business services offshoring location in Central Eastern Europe (CEE) over the last two decades. The paper reveals the role of elite agency in connecting domestic resources to business services global production networks (GPNs) in order to drive domestic institutional transformation. A lot has been written about the agency of labour; yet there is a gap in our understanding of the agency of elites, specifically how transnational elites articulate with other elites at the national-, meso- and micro-level and produce institutional changes. Drawing on literature on enclave creation and dual economies, the paper illustrates how the alliance between domestic and transnational elites shaped transformation across the sector by implementing labour market flexibilisation and by crafting a 'sound' business environment in terms of infrastructure, investment incentives and bureaucratic framework to emulate institutional conditions of the home country. The development of the Romanian business services sector into an 'enclave economy' has become dependent on collaborative networks with domestic universities and intermediary organisations, which played a key role in facilitating foreign investment attraction and linking domestic resources to the needs of multinational firms.

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Introduction

Business services outsourcing and offshoring has risen dramatically since the 1980s, irrevocably changing the spatial divisions of labour (Kleibert, 2015; Kleibert and Mann, 2020). This has created opportunities for low- and middle-income countries to attract foreign investment and develop into key – primarily export-oriented – offshore destinations for business services (Peck, 2017). A significant proportion of business services FDI and employment has been concentrated in more peripheral regions (Gál, 2014; Kleibert, 2017), such as Ireland and India in the 1990s and, since the early 2000s, in the four Visegrád countries, Romania, Bulgaria and the Philippines.

This paper critically interrogates the transformation of Romania into an important business services offshoring location in Central Eastern Europe (CEE). While Romania has long been considered a laggard in CEE, especially compared to the Visegrád Four, the Romanian business services sector has grown to 179,000 employees over the past two decades, generating sector revenue of over €9 billion and accounting for 3.6% of GDP in 2020 (Business Review, 2021; Economica.net, 2021). Analysing the industrial transformation of business services in Romania reveals important insights about the capacities of low- and middle-income countries to engage in value creation, value capture and upgrading in services economies. The analysis contributes a significant case to the ongoing discussion as to whether offshore business services sectors act as development vehicles for destination countries in the periphery (Dossani and Kenney, 2007).

Our focus here is on the role and agency of elites, akin to Hashimoto's (2021) agency of reformers, those in pivotal positions both domestically within the state administration and in related agencies, as well as in leading positions in companies, both domestic and international, in bringing about this transformation. The central question that this research addresses is: what role have domestically based and transnational elites played in the growth of the offshore business services sector in Romania? Domestic elites consist of those in official positions within the state, those in key non-state agencies, especially industry associations such as the Association of Business Service Leaders (ABSL), and domestic managerial talent. Transnational elites consist of executives of multinational firms based in global North locations or relocated as expats in Romania, and officials of macro-regional and international agencies such as the EU and World Bank. Together, these elites shaped institutional changes in four main ways. First, they manoeuvred within the benefits and privileges provided by locational and investment incentives to stimulate more FDI across the sector, generate increased learning and spillover effects, and amplify integration between domestic and foreign actors. Second, they reshaped domestic higher education offerings to tailor them to multinational firms' needs in this sector, thus constructing an island of globalisation emulating the Western world. Third, they spurred the formation of a new category of local (corporate) elites in the image of the top layer of transnational elites prevalent across cosmopolitan financial centres in the global North. And finally, they restructured the labour regime at both the workplace and national scales to ensure greater labour market flexibility and the absence of trade unions and comprehensive collective bargaining, creating a neoliberal labour regime across the sector. Building on the existing literature on offshored business services in CEE, India and the Philippines, we show how elite dynamics actively fostered the rapid expansion of the offshored business services sector in Romania.

In the following sections, we present our conceptual framework and provide an overview of the research methods, before engaging in an analysis of Romania's development into a key offshore location for second-generation business services in Europe. Our empirical account focuses on four interconnected issues. First, it analyses how elite agencies influenced the sector's investment incentive infrastructure. Second, it examines how elites reshaped educational provision. Third, it traces how elite collaboration drove the formation of a new category of local elites in the form of Romanian corporate executives. And finally, it critically interrogates the elite-driven institutional changes in the labour regime at the workplace and national scales. The paper concludes by highlighting the main contributions and providing avenues for further research.

Conceptualising elites' agency over business services in CEE

Defining business services in an offshoring context

We provide a set of five characteristics of business services to pin down the range of services that it includes (Wójcik, 2021). Various terminologies have been used to capture the 'outsourcing complex' (Peck, 2017) and are often utilised for the same or very similar types of activities – including information technology-enabled services, business process outsourcing, knowledge process outsourcing, professional services, financial services and business services (Kleibert, 2021; Sass and Fifeková, 2011). Lack of terminological clarity persists due to the dynamic nature of this sector and the ever-expanding separation of work tasks across organisations and space that has driven the formation of longer and more complex global production networks (GPNs). We define business services broadly to include all the above business services, as we are interested in elite agency in shaping the contours of the sector, widely conceived.

The second characteristic is that the geography of business services is simultaneously defined by the centralisation of core functions in global financial centres within the global North and the decentralisation of lower-end functions to more peripheral regions (Dicken, 2011). A significant proportion of current business services takes place in peripheral regions that have been 'shaped' into business services destinations due to their combination of favourable spatial, organisational and cultural factors (Gál, 2014; Kleibert, 2015). Our paper emphasises the role of elites in influencing where these business services were located, both in attracting FDI into the country and to particular developmental sites. They helped shape and build the spatial geography of linkages between domestic institutions (for education and training for instance) and the settlement of new business services subsidiaries. The changing spatial divisions of labour in CEE countries in business services is a relatively recent phenomenon. While countries such as Ireland and India emerged as destinations for business services offshoring over the last three decades and have been studied in depth (Dossani and Kenney, 2007; White, 2004), other peripheral regions in CEE and Southeast Asia have more recently caught the attention of scholarly work (Capik and Drahokoupil, 2011; Hardy et al., 2011; Jipa-Muşat, 2020; Kleibert, 2015, 2021). As Hashimoto (2021) shows, incentives and reforms gave rise to very differently shaped financial centres between Warsaw, Prague and Budapest, depending on the agency of the particular reformers in those locations. Similarly, we show that particular elite actors were influential in pushing for particular locations for business services within Romania.

A third characteristic concerns the distinction between horizontal and vertical foreign investment in business services (Gál, 2014; Hardy et al., 2011; Sass and Fifeková, 2011). Horizontal FDI is chosen by market-seeking investors who establish a subsidiary in the host country to provide services for the local market. This type of demand-driven FDI was most common during the first decade of post-socialist transformation in CEE. In contrast, vertical FDI relates to supply and efficiency-seeking investments slicing across national scales in search of lower-cost locations created by the fragmentation of the value chain. Such firms are offshoring only specific functions to the host country. This was particularly relevant for business services functions. Gordon et al.

(2005) highlight three types of functions that are prone to offshoring: call centre work (marketing, routine business enquiries, sophisticated technical support), IT functions (data processing, code checking, software development and modification, operations support, publishing and statistical analyses) and wider business support functions (accounting/payroll operations, paralegal work and record maintenance). In CEE, the majority of business services FDI is vertical (Hardy et al., 2011), and these services are primarily export-oriented (Gál, 2014; Sass et al., 2018). What is missing in the literature is how these processes were brought about, by whom and what kinds of deals were struck by the domestic agencies, led by particular public officials and by executives in the foreign companies making the investments. Our paper contends that it has been through the agency of key elites that this shaping of vertical export-oriented FDI in business services has been done.

A fourth characteristic is the need to understand business services through the dynamic interplay between two decisions revolving around ownership (make in-house or outsource from a third party) and location (where production takes place, onshore or offshore), which are directed from a firm's in-house and onshore centre of operations (Kleibert, 2021). Offshoring involves relocating functions across national borders, where it may be provided by a subsidiary (captive offshoring) or outsourced to an external provider (offshore outsourcing). Relationships between key foreign investors and local state executives are critical in shaping which of these subsidiary forms of ownership and location are chosen. In between the geographical dimensions of onshore and offshore, we also have the concept of nearshoring, which indicates closer proximity to the centre of operations of a firm. Fifeková and Hardy (2010) and Sass et al. (2018) illustrate how the majority of business services delivery centres in CEE provide services principally to clients in Europe, emphasising the ascendancy of CEE as a key nearshoring location.

The fifth characteristic is to think of business services as production networks in and of themselves (Coe and Yeung, 2015; Kleibert, 2021). This is in contrast to the argument that services occupy an intermediary position within the structure and composition of primary and secondary sector GPNs. While it may be the case that a services activity is articulated with a GPN in goods, for example, business services should be thought of as distinct value chains. They entail competitive dynamics involving a lead firm and a sequence of suppliers performing tasks with their own internal network governance and distinct horizontal competitive dynamics among locations. This is particularly relevant when we consider how and by whom strategic coupling or modes of integration of business services into GPNs was carried out.

Elite agency in the formation of business services

The analysis of offshored business services and their impact on the local economy assumes that the institutions doing the investing and those receiving investments are all-important. What is often missing is precisely *who* these actors are. It has long been understood that institutional transformation in CEE has been shaped by the interaction between domestic and transnational elites (Birch and Mykhnenko, 2009). This article develops the central role of elites and their transformation by offering a refined theorisation of elites to capture differences in nature, composition and relationships (Woods, 1998).

Hughes and Cormode (1998: 2098) define elites as 'powerful groups of people in influential institutions and organisations' that are central to the changing institutional landscape across political economies. The identities and actions of elites are geographically and historically specific, with elites having distinct powers and transformational roles across different spatial and institutional contexts (Hughes and Cormode, 1998; Woods, 1998). Elites are central to the trajectories of political economies through their privileged access and mobilisation of particular resources to geographical spaces (Woods, 1998). They are able to realise their interests by deploying elite networks (Cochrane, 1998). Thus, elites are characterised as a minority group imbued with powers and resources, capable of pursuing their agenda and exerting change at the expense of non-elites. The composition of elites is not fixed but continuously changing (Woods, 1998). Indeed, elites are a heterogeneous group of actors, characterised by a variety of identities, positionalities and spheres of activity, in a continuous process of both antagonistic and cooperative interaction (Bohle and Greskovits, 2013). We distinguish between domestic and transnational elites, but also further unpack domestic elites into state elites (domestic), corporate elites and other private elites from sectoral representative associations. The concept of transnational elites is divided into (transnational) corporate elites and those in international organisations.

GPN theory integrates the state as an active agent in the conceptualisation of global-regional production networks. Through their many interactions with other elite and non-elite actors within GPNs, state elites are perceived as principal drivers of institutional processes of value creation and value capture (Coe and Yeung, 2019). State elites play the role of 'inter-scalar mediators', as they have the ability to facilitate, enhance, prolong or even end strategic coupling between national territories and GPNs (Horner, 2014). According to Tan (2021), political power and state motivation are typically restricted to political elite-focused explanations, thus ignoring the fact that the allocation of rents, the formation of policy and the promotion of industrial upgrading are shaped and negotiated through the interactions between different types of social agents – elites, political coalitions, economic actors and other social forces. In turn, this requires an interrogation of state-society networks, while focusing in on the variegated elite and non-elite dynamics to allow for a meaningful analysis of economic development and institutional transformation. In a recent study, Wójcik et al. (2022) demonstrate how both Luxembourg and Ireland have been integrated within the networks of financial and business services transnational firms. The authors spotlight the ways in which a range of actors, including governments and regulatory agencies, intergovernmental organisations and financial and other advanced business services firms, interacted in order to influence the spatial development and functions across the two countries, developing them into key offshore jurisdictions and international financial centres.

The emergence of 'new' elites has taken place relatively recently in CEE societies. Myant emphasised that the post-socialist economies in CEE of the 1990s had to start 'without capitalists and without capital' (2007: 105). The presence of vertical FDI in business services triggered a process of knowledge transfer and skills upgrading, which developed domestic managerial talent (Czaban and Henderson, 2003). This corporate elite is defined by qualifications and a meritocratic performative culture of achievement and competitive activity (Savage, 2015). Kleibert (2021) talks about a 'top-layer of managerial elites' and 'elite labour' shaping the direction of the business services sector, for which 'education serves simultaneously as a vehicle for the reproduction and regeneration of elites' (Maclean et al., 2006: 105) Analyses have focused on elites' complex technical and analytical skills and their relatively high remuneration (Liu and Grusky, 2013; McDowell, 1998).

Elites' influence over modes of strategic coupling in business services GPNs

The role of elites in shaping the relationship between foreign companies and local partners is critical. In particular, what are the mechanisms set up by CEOs of foreign companies, by managers of subsidiaries and by local educational agencies for shaping the kinds of activities that are done? Where are they done and how much upgrading of services occurs locally? The initial wave of business services FDI in CEE involved primarily the relocation of lower value-added, skill-intensive back-office functions. In the second wave, front-office functions began to be shifted towards the region, indicating a clear evolution towards more added value and knowledge-intensive value chain segments (Capik and Drahokoupil, 2011). Regional studies demonstrate how business services

FDI has stimulated local value creation in different regions across CEE. Gál and Ptaček (2011) critically interrogate university-sector linkages within CEE post-socialist economies, arguing that regional universities act as drivers of innovation and knowledge transfer. Hardy and Hollinshead (2011) analyse software development offshoring to Ukraine, highlighting how offshoring generates employment in high skilled and knowledge-intensive areas of work. Similarly, Micek et al. (2011) identify the positive effects of FDI in business/knowledge process outsourcing in Kraków in terms of generating employment for graduates. Sass et al. (2018) measure the impact of business services FDI in the Visegráds and find positive and significant effects on exports and employment. While these studies demonstrate how the vertical disintegration of business services spurred value creation in these peripheral locations, real questions remain about the ability of low- and middle-income countries to benefit from spillover effects and become embedded in GPNs (Capik and Drahokoupil, 2011; Kleibert and Mann, 2020). And in particular, there is a gap in understanding how, through whose actions, value is created and captured at the local level.

The ability of non-core regions such as those across CEE to capture value is determined by the *mode* of strategic coupling. Strategic coupling refers to the purposive linking of domestic resources to the demands of foreign investors by domestic elites with the intention – most often – to shape domestic economic development (Coe and Yeung, 2015; Coe et al., 2004; cited in Kleibert and Mann, 2020). There has been a lot of attention paid to the institutional structures and outcomes – the decisions to invest, the types of investment and the location of investment – determining different types and levels of strategic coupling. Coe and Yeung (2015) emphasise the existence of three modes of strategic coupling with distinct capacities for value capture and configurations of control and dependency negotiated between foreign and domestic actors. *Structural coupling* refers to the decision of foreign companies to outsource and offshore low value-added functions to a new location that is driven principally by cost reductions. In this mode, FDI occurs primarily in special economic zones, is highly export-oriented and exhibits high degrees of 'enclaving' (Kleibert, 2015, 2017). This results in high levels of dependency of domestic actors on foreign actors and few opportunities for domestic actors to capture value within the GPN. *Functional coupling* refers to the decision of companies to establish linkages – either foreign companies entering domestic markets or domestic companies becoming integrated into GPNs – that are driven by the cost-capability ratio rather than cost considerations alone (Coe and Yeung, 2015). In this mode, domestic actors have the potential for greater value capture which can manifest in upgrading opportunities in terms of technology, labour and infrastructure, as well as the possibility of establishing strategic relations (Yeung, 2021). *Indigenous coupling* occurs when domestic companies become fully integrated into the GPN and emerge as lead companies driving global production (Coe and Yeung, 2015). This mode offers the greatest opportunity for value capture and upgrading. Elites in CEE state agencies and corporate positions are aware of the importance of establishing linkages between domestic and foreign firms and implementing state policies and incentive structures to drive learning, innovation and spillovers domestically. What is missing in the literature is a focus on elites in key positions in the state and companies and how they directed and managed relationships with foreign companies and local agencies such as universities and industry associations. Kleibert and Mann (2020) showcase how the Indian business services sector began by serving as a basic software services captive offshoring and offshore outsourcing location (structural coupling), but over time domestic companies formed strategic alliances with foreign investors and diversified their portfolio of services delivered (functional coupling), and finally some Indian offshore business services expanded internationally by establishing subsidiaries across advanced economies and other peripheral regions (indigenous coupling). Contrastingly, the most prevalent mode of strategic coupling in the Philippines is structural coupling due to the low-cost structure of the economy and the highly export-oriented nature of service-based special economic zones (Kleibert, 2015). Other more advanced modes of integration remain marginal across the Philippines due to insufficient investment in skills development and the absence of domestic companies, which together reduce the potential for spillover effects.

Elites' influence over labour regime transformation and the formation of the enclave economy

Post-socialist labour deregulation introduced radical changes across labour regimes in CEE, establishing a labour regime dualism across different geographical spaces (Palier and Thelen, 2010). During the 2000s, successive centre-right governments in the region introduced radical statutory changes to collective bargaining and trade unionism, effectively driving a systematic process of neoliberal labour law reform (Birch and Mykhnenko, 2009). Simultaneously, international organisations pushed for the restructuring of historical industrial conglomerations, such as coal mining and steel, and for the flexibilisation of labour markets (Bohle and Greskovits, 2013; Myant and Drahokoupil, 2011). This dual system reinforced the divide between 'old' industrial sectors that emerged during the socialist regime and 'new' sectors that emerged in the post-socialist era. Older sectors are defined by complex hierarchies, a strong unionisation model, and defensive opposition actions and control exerted by 'old' elites who enjoy access to patrimonial ties and localised privilege (Cernat, 2006; King, 2007; Ost, 2009). Whereas new sectors have reinforced the construction of dynamic labour regimes – defined by flexibility, disposability and temporal imperatives – that are controlled by corporate elites operating within an increasingly technocratic and egalitarian space (McDowell, 1998; Peck, 2017).

The dualisation of the labour regime is part of the bigger story of the formation of the 'enclave economy' and 'enclave spaces'. Kleibert (2015) argues that the emergence of offshore business services sites in peripheral regions has resulted in the acceleration of enclave creation. This process of enclave creation transforms specifically selected offshore urban spaces. This process is negotiated in tandem by domestic and transnational elites who aim to influence the process of enclave development. Hence, we need to recognise domestic elites' role in the construction of power dynamics (Peck and Tickell, 1995) and the interaction between domestic and transnational elites 'within wider networks of social relations' (Cochrane, 1998: 2122), to assess these multiscalar elite relations in driving a dualisation across economies in CEE. There is little interaction between the enclave economy and the traditional domestic economy (Kleibert, 2015, 2017). Nevertheless, collaborative networks do exist between the enclave economy and domestic universities (Gál and Ptaček, 2011) and between the enclave economy and powerful intermediaries that negotiate with state elites for favourable bureaucratic procedures and market the sector to foreign investors (Karnik, 2012).

The motivation behind creating enclave spaces is to shape 'sound' business environments that often emulate the institutional conditions of the investors' home country. In defining what we mean by 'sound', the most important ingredient in creating enclave spaces is the availability of high skilled labour (Milberg and Winkler, 2013). But access to talented labour alone is not enough for enclave creation to work. Elites need to facilitate labour market flexibility by reducing the oppositional powers of labour to resist the labour regime transformation in this new sector. Also essential to an enclave are factors such as the quality of infrastructure, government incentives and bureaucratic framework (Gál, 2014; Sass and Fifeková, 2011).

There is a lot written about the agency of labour in post-socialist political economy research (Cernat, 2006; Crowley and Ost, 2001; Zientara, 2009); yet there is a gap in our understanding of the agency of elites. In particular, we need more attention on how transnational corporate elites interact with elites at the national-, meso- and micro-level and produce institutional changes. In a recent pair of studies, Smith et al. (2018) and Campling et al. (2021) stress the existence of three distinct but interacting nested scalar dynamics underpinning the construct of labour regimes and production politics: the workplace, the national level and the GPN. First, the workplace labour regime refers to the labour process and the underlying relations of control, consent and resistance (Thompson and Smith, 2011). It is within this politics of production that the organisation of labour opens up the opportunity for creating and extracting surplus value. Second, the workplace is nested in the local and national political economy, which comprises the regulatory framework for industrial relations and labour codes promulgated by the state. These labour codes and laws are negotiated in tandem with corporate elites and labour representatives. Third, workplace dynamics have to be integrated into GPNs, whose governance structure dictates the distribution of power and opportunities between the lead firm and suppliers. The nested scalar labour regime concept is useful for understanding how elite relations shape institutional change. Specifically, transnational corporate elites traverse various nested geographical scales, interacting, forming alliances and negotiating with the different categories of elites at each scale to shape the conditions for business. This approach to analysing elite dynamics moves us beyond the standard conceptualisation of corporate elites as simply scanning the globe for different locational advantages and adds to literature that identifies a fuller, more complex role. For example, Sorge and van Witteloostuijn (2004) stress the transformative role that transnational corporate elites play in shaping different 'downstream' institutional changes across technological standards, regulatory frameworks and management practices. Transnational corporate elites enable restructuring across different geographical spaces, facilitating new labour regime configurations that are disconnected from the traditional domestic framework and involve 'light-touch' regulation (Peck, 2017).

Methodology

The primary data for this analysis was collected by the first author. The methods involved a programme of 26 semi-structured elite interviews, ranging in length from 1 to 2 h, conducted in 2017 and 2018 with senior sector executives (18), state representatives with responsibilities for foreign investment or labour (2), higher education representatives (2), chambers of commerce representatives (2), an economic historian and a private consultant in industrial relations (for interview information, see Appendix Table A1). Archival research was used as a complementary research method to gain a better understanding of the structural particularities of the Romanian political economy, particularly distinctions between 'old' industrial sectors representative of the socialist past and the emergence of the business services enclave economy. The archival collection that we used is the National Romanian Archives located in central Bucharest. Furthermore, the lead author reviewed articles from the Romanian business press and technical reports.

Conducting fieldwork in elite settings was problematic because elites were visible but not always accessible (Laurila, 1997). Sector executives were relatively open and transparent, but state and educational representatives were not. The lead author leveraged family connections, having direct ties to gatekeepers across the sector and the political apparatus (McDowell, 1998). Once in the research setting, elite relationships were challenging to manage because they tried to dominate the interview, change the line of questioning and influence the quality and quantity of the information given (Mikecz, 2012), which was compounded by being a female working in a male-dominated sector in a post-socialist context. In interviewing different types of elites, the lead author found herself in the situation of having to alternate between different identities (McDowell, 1998). Researcher-elite participant relations evolved continuously across an interview, requiring the switching between the positionality of an inexperienced but keen student playing to a male ego, to the positionality of a serious scholar based at an elite educational institution and to the positionality of a well-informed insider that cannot be swayed by company taglines and impressed with parlour tricks.

The emergence of Romania as an offshore location for second-generation business services

The growth of the business services sector in Romania as a key offshoring location in Europe after 2000 has been one of the most significant industrial transformations in the post-socialist era of the country. Ownership structure in the sector is almost completely foreign and private – over 95% is controlled by FDI – and concentrated around multinational firms. According to KPMG, Romanian business services can be divided into three major areas: information technology, comprising 25% of the total workforce; business process outsourcing and shared service centres, comprising 25% of the total workforce; and finance and accounting, banking, insurance and financial services, and human resources, comprising 50% of the total workforce (Romania Insider, 2015). The sector has grown from under 200 employees in 2004 to 179,000 employees in 2020 (ABSL, 2018; Economica.net, 2021). Sector turnover has also shown exponential growth – in 2012, total sector sales revenue was approximately €500 million, whereas in 2020 it reached €9 billion (Economica.net, 2021; Romania Insider, 2015). This sector has a contribution of 3.6% to Romania's GDP, higher than other CEE countries where the sector is developed (Slovakia 3.5%, Bulgaria 3.3%, Hungary 3%, Czech Republic 2.9%, Poland 2.8%) (Business Review, 2021).

The cosmopolitan, highly urbanised spatial configuration of Romanian business services stands in stark contrast to the often decrepit façades of concrete and steel that typify vast industrial conglomerations, which are situated in peripheral and even isolated geographical locations. Upon visiting business services parks in Bucharest and Timişoara, the lead author was surrounded by gleaming 'smart' and 'sustainable' high-rise buildings spread across impressive campuses packed with entertainment opportunities and conspicuous consumption outlets including parks, biking trails, cafes, restaurants, shops, gyms and public artwork. These spaces are constructed according to a highly Americanised template of modernity (Kleibert, 2015, 2017), creating a spatially demarcated economy that is defined by superior business environments (Internet connectivity, physical infrastructure, bureaucratic framework) and increased remuneration opportunities.

The motives for vertical FDI in business services in CEE have been widely discussed elsewhere (Capik and Drahokoupil, 2011; Gál, 2014; Hardy et al., 2011; Sass and Fifeková, 2011). The most important location choice factor of Romania represents the availability and cost of high skilled labour. There is a steady supply of skilled labour specialised in computer science-, engineering- and business-related fields. The country has very good foreign language capabilities, being considered as the second most multilingual country in Europe after the Netherlands (Peck, 2017). According to a sector executive, there are business services firms in Romania that operate in up to 25 languages (Veeam, 11 April 2017, Bucharest). The strength of Romania in attracting FDI lies not merely in its proximity to talent but in the provision of sound business environments (Internet, office space, telecom) at lower costs than in the four Visegrád countries. The country boasts an adequate bureaucratic framework, which has been achieved through a protracted regulatory shake-up, with an operating environment that is compliant with international legal and business standards. The geographic and time zone closeness to core regions of the global North coupled with the ongoing process of cultural harmonisation make Romania more accessible and lower-risk in comparison to other business services sites located further south (sector executive, Ipsos, 4 April 2017, Bucharest). Strategic proximity – geographical and cultural – alongside political linkages through EU membership has made Romania a strategic near-shoring location, integrating it into regional business services production networks.

Elite agency in influencing investment incentives

We emphasise the role of Romanian state elites in conjunction with key domestic corporate elites which often straddle both economic and political roles in reconfiguring business services' infrastructure. The interplay between these elites shaped several state policies for creating subsidised infrastructure, driving the Romanian economy's coupling with global-regional business services production networks. The Romanian government instituted the National Strategy for Competitiveness (NSC) in 2014, a critical programme for business, focusing on driving collaboration between firms and state institutions, developing human capital and educational resources and increasing R&D towards a 'knowledge-based economy' (Economie, 2014). The NSC identified business services and ICT as sectors of strategic national importance through a regional upgrading programme targeting different geographical scales – macro, sectoral and local. While this policy has not targeted business services specifically, the measures implemented created a 'favourable framework', consisting of subsidised infrastructure and support mechanisms, which allows foreign business services investors to operate more easily in Romania (sector executive, HP, 8 April 2017, Bucharest). The NSC created a cadre for foreign business services investors to become involved in national-regional organisations and networks, playing an active role in stimulating the creation of favourable business conditions and a Westernised business culture. Moreover, the NSC developed a framework that encouraged greater cooperation between multinational firms, higher education institutions and the ABSL. The interaction between firms, education and the ABSL will be explored further in the paper.

The Romanian state has used a panoply of investment incentives to attract FDI from home country investors. State elites in the Ministry of Economy offered companies across the sector different types of tax exemptions. The most often quoted tax incentives include tax exemption for profits reinvested in certain non-current assets; additional deductible allowances of 50% for R&D expenses; tax deferrals for specific categories of assets; postponement of VAT for imported goods and services; customs duties suspension procedure; and income tax break for employees undertaking software development activities (consultant, Invest Romania, 5 May 2018, Bucharest). Interview participants highlighted that by far the most important tax incentive was the income tax break for employees in software development (sector executive, Ipsos, 22 March 2017, Bucharest). The tax break was introduced in 2001 at a conference entitled 'The new economy and the implementation of the information society in Romania' (Government Ordinance no. 7/2001). The government at that time noted that 'the ICT sector is a priority activity that is expected to be stimulated, including through the fiscal leverage', while also establishing a Ministry of Communications and Information Technology (Government Decision no. 39/2000). The tax break initially targeted the ICT sector but has since been substantially extended to cover business services, simultaneously lowering the income and qualifications threshold (Romanian National Bank, 2016). One interviewee illustrates the significance of the income tax break:

> The huge benefit that a company sees when it is thinking of investing in Romania is the software development part because they have a tax exemption […] Our famous tax exemption also comes from this collaboration between different institutions. The founder [of the tax exemption] was Dan Bedros who was the president of Alcatel in Timişoara. He is the one who came up with this idea because he saw there was a need. (Nokia, 19 April 2017, Timişoara)

Cash incentives have been offered to locate FDI in specific geographical spaces; these are available to business services foreign investors. EU legislation imposes certain limitations on the amount of financial aid awarded to each region within the EU, taking into account factors such as the level of development and urbanisation, regional level of GDP and regional level of unemployment relative to the EU average (ABSL, 2015). The Ministry of Economy has focused on a process of targeted regional development through attracting FDI and awarding those foreign investors cash incentives (Cojanu and Pîslaru, 2011). Table 1 indicates the types and levels of cash incentives allocated to the different geographical regions. While these incentives have not targeted business services specifically, they have met some of the needs and requirements of firms in the sector, through

Table 1. Allocation of cash incentives negotiated by the Ministry of Economy, Ministry of Finance and Ministry of Development.

Region	Level of state aid	Aid intensity
Incentive: job creation		
Bucharest	Up to €11.25 million	15%
	Up to €7.5 million (after 01/01/2018)	10% (after 01/01/2018)
West, Ilfov region	Up to €26.25 million	35%
Other regions	Up to €37.5 million	50%
Eligible expenses: gross salary costs for a period of 2 consecutive years (for the newly created jobs)		
Eligibility criteria: SSC must be the initial investment; creation for each investment location of a minimum of 10 jobs, out of which a minimum of 3 jobs for disadvantaged workers		
Incentive: major investment		
Bucharest	Up to €11.25 million	15%
	Up to €7.5 million (after 01/01/2018)	10% (after 1 Jan 18)
West, Ilfov region	Up to €26.25 million	35%
Other regions	Up to €37.5 million	50%
Eligible expenses: certain tangible and intangible assets		
Eligibility criteria: provide improvement of skills and qualifications of the hired workers and employees; SSC must be the initial investment; total investment of €10 million		

Source: ABSL (2015).
Notes: incentives are cumulatively capped at the level of EU imposed aid intensity, which is expressed as a percentage of eligible costs of investment – either 2-year labour cost or envisaged capex.

the ABSL, which has facilitated access to better locational benefits and support mechanisms for FDI (sector executive, Genpact, 30 March 2017, Bucharest).

Local and regional state functionaries offered foreign investors for free or at reduced prices land for construction or office space for a pre-determined period. These incentives were available only for FDI over a specific value and/or number of jobs created directly (ABSL, 2015; Bursa, 2018).

> As a member of the ABSL, I can tell you that there are foreign investors that have received commercial space at very advantageous prices. Furthermore, it's not only that they received space, but special locations have been created that have all the necessary facilities in terms of infrastructure. I am obviously talking about Pipera [in Bucharest], but also in Cluj, Iaşi, Timişoara. All these cities have technological parks specially designed. (Microsoft, 18 April 2017, Bucharest)

The interaction between state elites and corporate elites locally has driven the reconfiguration of the sector's incentive infrastructure. The linkages between domestic actors have triggered different general and targeted 'business enabling' policies that have attracted FDI and strengthened the collaborative networks between domestic and foreign actors. The involvement of foreign investors in national policy either directly through particular visionary corporate executives or through industry associations such as the ABSL highlights horizontal linkages and strategic coupling between domestic and foreign resources.

Elite agency over reshaping educational provision

Historically, the levels of public education and R&D spending across CEE have been quite low in comparison to high-income countries in Western Europe (Myant and Drahokoupil, 2011). Educational institutions have often been deemed inadequate in their capacity to meet the knowledge and skill content required by companies and unable to establish linkages with actors across different sectors (Radošević, 2006). Capik and Drahokoupil (2011) emphasise how regional innovation policies have been mostly ineffectively designed – insufficiently geared towards localised technological specialisation, lacking appropriate funding and with little R&D content.

Business services are heavily dependent on high-skilled, primarily urban middle-class workers that have received high-quality (public) education. Moreover, employment is spatially concentrated in the largest and most developed urban spaces, as companies depend on a steady stream of skilled workforce and strong networks with universities (Kleibert and Mann, 2020). Our assessment of Romanian business services indicates that relations with elites have been crucial in reshaping the educational infrastructure and compensating for institutional insufficiencies of the domestic educational system. Linkages have been created between corporate elites and local universities and other business agencies, highlighting strong levels of coordination and complementarities between vertical FDI and domestic institutions. As a senior executive highlights:

> We are trying to develop this communication with the supporting horizontal institutions. We are engaging in a dialogue with universities and training agencies. This dialogue takes place on an ad hoc basis. (Nokia, 19 April 2017, Timişoara)

Sector-specific education initiatives include the joint design and revamp of computer science curricula, joint delivery of applied ICT and business management courses, organisation of specialised labs and workshop sessions and provision and financing of part-time internships to undergraduate students. In addition, 10 out of 11 companies in our sample had established some type of education initiative with at least one local university at the time of the interviews.

In addition, the sector established an industry association for all Romanian business services companies in 2012, the Association of Business Service Leaders (ABSL) in Romania. The idea for establishing the ABSL Romania came from the general manager of international operations (European-level) at Wipro Technologies, who upon relocating to Bucharest reacted to the weak linkages and inadequate educational provision across the sector. The role and composition of the ABSL emulate NASSCOM – the Indian non-governmental trade association and advocacy group representing the ICT and BPO sectors. NASSCOM was established in 1988 for coordination and lobbying by the Indian business services sector (Karnik, 2012). The role of Wipro's general manager in shaping the ABSL and influencing sectoral infrastructure in Romania illustrates how corporate elites from this Indian offshore provider became leaders through the expansion of the company's operations internationally, reshaping the local conditions they found themselves in.

The role of the ABSL Romania focuses on the delivery of three strategic pillars: knowledge sharing, managing state relationships and educational partnerships. By far, the most important is the facilitation of educational partnerships. In 2016, the ABSL Romania in conjunction with the Academy of Economic Studies Bucharest (AES) launched a joint Masters programme organised within the School of Accounting and Information Technology. During the 2 years of the programme, students participate in modules such as financial-accounting process management, project management tools, IT process management, business process optimisation (e.g. Lean Six Sigma), financial analysis, ERP systems (e.g. SAP) and intensive study of a foreign language. The modules are taught by professors from the AES and specialists from the ABSL's member companies. According to a sector executive and member of the ABSL:

> As an industry we are doing a lot. We started partnering with universities, there's a Masters programme which runs through the ABSL, between the ABSL and the AES. This partnership with the AES acted as a pilot project, which will then be rolled out and replicated at a national level. This is a concerted effort between us and the state. (Wipro, 5 April 2017, Bucharest)

The interaction between transnational and domestic corporate elites and state elites has targeted the specific needs and requirements of the business services sector through the involvement of industry associations such as the ABSL. Indeed, the interaction between business services companies and the educational system has reshaped the composition of training and skills across the sector according to educational provision typically observed in the environs of the Western world. These linkages between domestic and transnational, public and private actors have strengthened the degree of local embeddedness of business services FDI in Romania and the degree of strategic coupling between domestic resources and the structure of business services GPNs.

Creating domestic corporate actors: a new category of local elites

In the early stages of sector development, senior executive positions were held by expatriates. The literature emphasises a high degree of centralised control over managerial decisions, the tight application of budgets, and the heavy reliance of multinational firms on their delegated representatives (Czaban and Henderson, 2003; Radošević, 2003). Transnational corporate elites were relocated to Romania to set up and control the direction of operations at the offshore location. The strategic orientation of vertical FDI was imposed through the decision-making and hierarchical order of the headquarters. There was a weak capacity for value capture domestically, with transnational elites exerting control and creating dependency.

> I know that across Romanian companies the bosses are from the country of origin of the company at the beginning. […] We always had someone locally or we had remote management, meaning that they resided in their country of origin and we communicated via email, via telephone or they used to visit us. (Endava, 24 April 2018, Bucharest)

Over time the interaction between transnational and domestic actors resulted in local spillover effects, generating the potential for greater value capture for domestic actors. Local industrial transformation triggered a process of skills upgrading, which in turn drove the formation of domestic corporate capabilities and the rise of a new category of elites. A new cadre of domestic corporate executives was created at the behest of foreign CEOs, as indicated by an interviewee:

> Teams of Romanian managers get formed and are helped to grow. The chief executive officer [CEO] is still from the country of origin of the company, where the HQ is. However, there are now domestic intermediary managers that were formed as the companies grew. These are the Romanian capitalists. (Endava, 24 April 2018, Bucharest)

This interviewee makes a valuable distinction between the different levels of corporate elites, with domestic corporate executives seen as an ‘intermediary’ category of elites. This creates a class of leadership below senior executive positions which are still occupied by foreign actors, consisting of lower-end managers and team leaders. In 5 out of 11 companies in our sample, the general manager was Romanian, suggesting an upgrading in domestic leadership of Romanian business services. Of our interviewees, 4 were at the general manager level, with the remaining 14 classified as ‘intermediary’. All but one executive interviewed were Romanian.

Transnational corporate elites have acted as powerful shapers of domestic corporate capabilities in setting up training programmes for domestic executives which involved sending them abroad temporarily. These transnational training programmes are designed to instil corporate practices and sociocultural characteristics from the investing country into domestic actors, who would then act as diffusers and replicate these practices locally.

> Our people in key leading positions are often invited abroad. The company has two main research hubs, one in Belgium and one in Austin, Texas. We send our people there for three, six, twelve months, it depends, sometimes even more. And they go there and they learn, not just technical and process-related stuff you see, but also the culture and the environment. You can say that they become acclimated in all aspects of the company there. And then they are sent back to us and they spread all of that knowledge they accumulated. I was there several times and I will go again in summer. (Nokia, 19 April, 2017)

Through collaborations with domestic actors, transnational corporate elites were able to create a new category of modern local elites in the image of the top layer of transnational elites concentrated in global North financial and research environs.

Elite restructuring of the labour regime

In 2011, the Romanian government introduced the most radical statutory process of deregulation to collective bargaining agreements (CBAs) and trade union law since the fall of the socialist regime. This deregulation of the labour regime was influenced by transnational elites through the EU and the World Bank programmes (Birch and Mykhnenko, 2009) as well as the ‘push’ factors exerted by FDI (Ban, 2013; Trif, 2013). The New Labour Code dismantled national economic associations’ collective agreements, abolishing the unique national CBA that had been effective since 1991 (Ciutacu, 2011). Under the new legislation, CBAs can only be signed at the sector-, group- or firm-level and apply only to signatory parties, instead of extending over parties not involved in the negotiation of the CBA or parties with no affiliation to negotiating partners (Domnișoru, 2012). The single, unique CBA was replaced by multiple, ‘specific’ or more individualised agreements. There is a strong push from employers towards signing firm-level CBAs, as the New Labour Code makes industrial action at the firm-level illegal (Ban, 2013). The deregulation of the Romanian labour regime also resulted in the downgrading of trade union leaders’ powers. The payment of trade union-related activities became unconstitutional and trade union leaders are no longer protected during their term against wrongful dismissal (Barbuceanu, 2012).

These institutional changes across the national scale were shaped in tandem with the transformation of business services workplaces. Specifically, the workplace labour regime is based on more flexible, irregular and individualised employment relations. This new configuration stands in stark contrast to the significantly more protectionist, coordinated employment relations typically associated with traditional sectors, remnants of the socialist regime (Funk and Lesch, 2004). Regional studies indicate that business services employment relations are defined by high labour mobility and high turnover (Capik and Drahokoupil, 2011). Interview data revealed that Romanian business services companies are characterised by a growing incidence of flexible work (part-time and teleworking contracts) and pre-determined working contracts.

> There is a greater degree of mobility that defines the current work framework, whereas the classic work model based on a fixed working schedule and location is no longer the rule [...] I have seen companies start to use temporary labour. This means that you are working in my company but you are not employed by [business services company], instead you are employed by a company that deals with hiring labour and you are assigned to me. One thing I know for sure is that as an employer it gives me more flexibility – call it a work-around – because normally it takes me a longer time to fire you. This way the risk is no longer with me, the burden is with the company that hired you (laughs). So, they moved the headache from me, they moved it to them, and that’s a work-around. So that’s what I am seeing: more part-time, more flexible work, more temporary work, because the multinationals have adapted. (Veeam, 11 April 2017, Bucharest)

Domestic corporate executives shaped this transformation of the workplace labour regime. In addition to making the labour regime more flexible and with more temporary work, they drove the weakening and fragmentation of industrial relations. All companies in our sample had institutionalised CBAs at the company-level, effectively blocking the possibility of labour organisation at higher levels and classifying any form of protest action as illegal. The level of unionisation across business services is low – under 10% (sector executive, Ipsos, 4 April 2017, Bucharest). Rather than forming trade unions, employees are encouraged to establish employees' representative bodies. Employees' representative bodies were legally established in 2011, undermining the role of trade unions. The new framework confers a lesser degree of protection than a trade union (Labour Code update 2018, Law 53/2003, Trade Unions, Articles 214–220, Employees' Representatives, Articles 221–226). This includes a less defined role for employees' representatives, no assistance in negotiations or disciplinary procedures with employers' associations, no financial support or alliances with employees' representatives in other companies, no dialogue with the government or employers over national-level working conditions and the inclusion of managers in employees' representative bodies. The general attitude of domestic corporate elites towards trade unions is summed up by the following interviewee:

> I don't know what to tell you about trade unions, I don't know much. We don't have one. We do have employees' representatives […] Personally, I don't think we need a trade union. This sector operates very differently, it's not like in some industries where you had those long and cumbersome procedures or discussions where you need to seek approval from everyone […] We have a discussion's forum, this is the employees' representatives. It is important even though its existence is symbolic, it is not a formal organisation like a trade union with a distinct legal personality. (Ipsos, 22 March Bucharest, 2017)

Corporate executives have minimised employee involvement within industrial relations. They have actively pushed for the formation of weaker forms of employee representation, which have been facilitated by regulatory transformations at the national scale. The interaction between transnational and domestic corporate elites indicates a degree of centralisation, with domestic actors having their decisional powers over the structure of employment relations constrained.

> To a very small extent we are an independent unit. Why? Because of the company's strategy which is very clearly structured and the approach does not focus on decentralisation but on centralisation in terms of the work model … actually no, in all areas. (Nokia, 19 April 2017, Timişoara)

Domestic corporate elites have been under the control and direction of transnational corporate elites. Together they have shaped the workplace labour regime by emulating neoliberal practices from the home country of the foreign investor that have been further expanded and amplified across GPNs.

Conclusion

Large-scale processes of decentralisation have shaped peripheral countries such as Romania into significant business services destinations due to their highly favourable combination of geographic, organisational and cultural factors (Peck, 2017). This has been achieved through powerful elite agencies that have strategically coupled domestic resources with foreign resources and into business services GPNs, spurring opportunities for local upgrading. The industrial transformation of Romanian business services occurred alongside the dualisation of the labour regime and the formation of what resembles an 'enclave economy'. The Romanian case demonstrates how enclave spaces are created deliberately by collaborative inter-elite networks and concentrated in 'cherrypicked' urban spaces offshore. It illustrates how these elites established enclave spaces (Kleibert, 2015) through a range of linkages to different domestic institutions, including universities and industry associations. They shaped a 'sound' business environment in terms of infrastructure, investment incentives and bureaucratic framework. The interaction between domestic and transnational elites helped transform the physical environment and business culture of the sector, emulating particularities of global North environs. Transnational-domestic elites saw themselves as needing sufficient capacity to discipline labour and disrupt former associational power amongst workers, ultimately creating a young, modern and flexible labour force.

Considering the establishing of linkages into the domestic economy and the investment in different skill sets, including technical and managerial, we believe that elite agencies created opportunities for functional coupling. A major point of differentiation is that the upgrading of the Romanian business services sector is less enclaved than in the Indian and Philippines political economies. Kleibert's (2017) work highlights a clear case of enclaving going on in the two Asian offshore destinations, confining their business services sector within special economic zones and resulting in more superficial levels of territorial embeddedness for these GPNs. In comparison, the bifurcation of the Romanian economy into an enclave business services economy and a traditional domestic economy is less stark. This argument can be made on the basis of the ease with which the multinational firms, the ABSL and universities collaborated. Moreover, the sector didn't require new institutions to be set up. Rather, there was an adaptation of already existing infrastructure. The educational adjustments – training in programming and computing processes – have also been a more incremental form of upgrading of capabilities. Technical training began at a higher level in Romania compared with India and the Philippines. One of the main reasons for business services multinational firms relocating within CEE countries has been the relatively high base level of technical education, which constitutes a legacy inherited from the socialist regime. The kinds of educational programmes that were designed in support of business services were about building upon and repackaging a set of skills rather than building skills from scratch.

The role of transnational elites in shaping and coordinating the direction of this sector deserves more attention. We realise that we have not critically interrogated the effects of international organisations – such as the EU – in driving the process of industrial transformation. Future research could analyse the distinct ways in which the EU's Services Directive provides a horizontal framework and focuses on institutional changes including securing easier intra-EU establishment for companies and creating simplified procedures and formalities. In relation to issues concerning value capture and upgrading, it would be important to investigate the EU's initiatives to increase investments in knowledge, research and education and the ramifications of these for Romanian business services in terms of local economic development outcomes.

In a survey conducted by the ABSL, Romanian business services reported that they have been largely unaffected by the Covid-19 crisis. However, sector representatives have remarked on an increased focus on robotic process automation and artificial intelligence in driving the process of digitisation (ABSL, 2021). Future research can analyse how in the context of the Covid-19 crisis, domestic-transnational elite relations have further reconfigured the nature of the workplace labour regime. It will be important to understand how this technological shift has altered the composition of tasks and activities undertaken locally by the business services of foreign companies. Spatial divisions of labour are constantly evolving, and any systemic changes may alter the spatial dynamics of the Romanian business services sector yet again.

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Appendix

Table A1. Information on interview participants and interview setting.

Interviewee position/role	Company/institution	Location of interview	Date of interview
Senior executive (EU operations)	Accenture	Bucharest	25 Mar 17
Senior executive (operations)	Genpact	Bucharest	30 Mar 17
Senior executive (EU operations)	Ipsos	Bucharest	22 Mar 17
Senior executive (vendor management)	Ipsos	Bucharest	04 Apr 17
Senior executive (production)	Ipsos	Bucharest	04 Apr 17
Senior executive (global operations)	Ipsos	Bucharest	05 Apr 17
Senior executive (global operations)	Wipro	Bucharest	05 Apr 17
Senior executive (operations)	Stefanini	Bucharest	06 Apr 17
Senior executive (outsourcing)	HP	Bucharest	08 Apr 17
Senior executive (sales)	HP	Bucharest	08 Apr 17
Senior executive (operations)	Veeam	Bucharest	11 Apr 17
Senior executive (operations)	Microsoft	Bucharest	18 Apr 17
Senior executive (multimedia)	Nokia	Timișoara	19 Apr 17
Senior executive (R&D)	Nokia	Timișoara	19 Apr 17
Senior executive (operations)	IBM	Timișoara	20 Apr 17
Senior executive (finance)	IBM	Timișoara	21 Apr 17
Senior executive (applications)	Endava	Bucharest	24 Apr 18
Senior executive (applications)	Endava	Bucharest	24 Apr 18
Director (social dialogue)	Ministry of Labour	Bucharest	05 Apr 17
Consultant (foreign investment)	InvestRomania	Bucharest	04 May 18
Executive committee member	Polytechnic University	Timișoara	10 May 18
Executive committee member	Polytechnic University	Timișoara	11 May 18
Executive member (commerce and investment)	Chamber of commerce	Bucharest	07 Apr 17
Executive member (economic development strategy)	Chamber of commerce	Bucharest	18 Jul 17
Economic historian	West University	Timișoara	23 Apr 17
Consultant in industrial relations	Syndex Romania	Bucharest	27 Apr 18