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Foreign Direct Investment Practices: the Case of Greek companies in the Balkans.

Abstract.

In the past years a very limited number of Greek enterprises had invested abroad (foreign direct investment-FDI) and the cost of investment was rather immaterial. This situation changed radically during the current decade with the trend of economic co-operation and investment activity in the Balkan States. Many big and medium sized Greek enterprises invested in the Balkans and continue to do so. Since investing abroad is something new or unknown for the vast majority of Greek industrial firms or banks, the investment practices particularly similarities and differences between FDI and domestic investment activities, are important and interesting to examine. The proposed research aims to examine the capital budgeting practices and the role of Management Accounting Systems in the appraisal of capital investment projects undertaken by Greek companies, abroad. Specifically, the investment activity of Greek enterprises in the Balkan countries will be examined.

1. Introduction.

Foreign investment decision processes have attracted considerably less attention from researchers compared to domestic investments. It has to be noted that the scope of study is capital and not offshore investments. Dealing with Foreign Direct Investments (FDI) is very different from investing in a home country because more factors have to be taken into consideration. Thus, the decision making process is probably more complex and risky (Aharoni, 1966). The main reason for this to the organisation is lack of knowledge concerning the foreign countries that are the potential hosts for their investments. In addition to the usual business and financial risk in relation to a capital investment, investing abroad contains other specific risks defined as country or political risk, of both an economic and non-economic nature. FDI could involve the establishment of a new enterprise overseas (greenfield), the expansion of an existing branch or subsidiary or the acquisition of an overseas business enterprise or its assets.

The current research study seeks to answer three questions. First, what are the differences (as well as similarities) between foreign direct investment (FDI) decision processes and domestic capital investment decision processes? Second, is how management accounting information used in the decision process in relation with the financial analysis applied? Finally, how is corporate strategy linked with the foreign investments and what is the role of politics in the determination of foreign expansion strategy?

2. Literature.

2.1. Why invest in the Balkan States?

The common characteristic of East European countries is that they are currently in a state of transition, moving from a centrally programmed economy towards an open market economy. This transition gives the opportunity to western companies to invest in Eastern Europe in different ways, in order to gain market share and make profits out of this investment. The reasons for investing in Eastern Europe include the following (Paliwoda, 1995): selling to a growing market with unsatisfied demand, producing cheaply, exporting possibly to the new wider European region or entering Eastern Europe before competition. For the first time, Eastern Europe offers many attractions to foreign investors such as low asset sale prices, low wages, economic growth, transferability of profits and advantages of entering other markets. But nothing appears to be ideal. On the contrary, as mentioned before, these economies are in a state of continuous transition and currently they are suffering shocks on their way to becoming like western economies. Despite the poor economic situation and the insecure political condition (Veremis, 1992), many companies from western countries are investing in the Balkans, among them many Greek companies. Greek investors were among the first to invest in these countries. The reasons for expanding their activities to the north of the Greek borders will be discussed later.

2.2 FDI decision-making.

Managers are reluctant to face risks and thus do not consider investing abroad unless an initiating force appears that would change their mind. An initiating force might be an outside proposal from a source that cannot easily be ignored, fear of losing a market, successful activities abroad of a competing firm or strong competition from abroad in the home market. After the appearance of an initiating force to invest comes the investigation process within which many general factors are considered. These factors refer either exclusively to the foreign investment (government policy/ politics, economic, legal, social environment / infrastructure and provided services, etc.) or to factors relevant to any investment opportunity. Following, the stages of the FDI process according to Aharoni (1966) are outlined:

1. General Indicators.
    1.1 Risk and Uncertainty (political, economic, nuisance)
    1.2 Changes in perceived risk through investigations.
    1.3 Market Size.
2. On the spot investigation. Information about sales, prices, cost of investment, etc.
3. The presentation.

The final stage after the investigation is the decision to invest. Before the final agreement, the project is modified after negotiations within the firm and with outsiders. Thus, the final decision is influenced by commitments, social structure and power relations in the organisation (Mintzberg, 1985).

Wei and Christodoulou (1997) define FDIs as either equity or capital investment by the parent company in a new or existing overseas enterprise. Similar to Aharoni (1966) they examine the FDI decision process according to three phases, which are initiation and preliminary thinking, investigation and, evaluation and final decision-making. Past experience with foreign operations, high sales (thus growth) and, cultural similarities between the company's home and host countries could be considered as factors effecting a decision in favour an FDI. Cost and price competition was identified as important reasons for a company to internationalise its activities (Wei & Christodoulou, 1997). Environmental changes and company's growth goals were identified as major initiating forces for considering foreign direct investments. Among the companies in the sample, a limited number undertook formal and long run planning procedures for the FDI assessment. It was noted that the main information collected was about regulations and laws in the host country. The majority of the companies considered a single option rather than multiple choices during the FDI decision making. Finally, the most used financial analysis method was return on sales and political risk analysis was applied (Wei & Christodoulou 1997).

When discussing capital investments, most people have in mind capital budgeting theory that is represented by the rational investment decision model and the financial techniques used to assess candidate projects and determine the final decision. The decision process is not as simple as to be fully explained by a model. Political, social and behavioural factors exist within the business organisation and influence the decision-making (Northcott, 1992). The economically rational decision-maker stands only in the assumptions of economic theory. When used, financial techniques rather help CI decisions or justify a decision made. King (1975) conducted two case studies and found that the first stages of the decision process (identification, screening and definition) are the most important because during those stages it is in fact determined which projects would be selected.

2.3. Linking Strategy to Capital Budgeting.

«All investment decisions could be regarded as strategic in the sense that they had long-term implications for the organisation and helped to set its future course of action» (Butler *et al*, 1993, p.1). Most of the literature on capital investment focuses on the financial appraisal techniques and the need for sophistication. Strategic considerations were considered only during recent decades. Financial analysis is unable to examine all the variables related to capital investment decision making, specifically marketing and strategic issues that are usually difficult to quantify but are key decision determinants (Barwise *et al*, 1989). Companies that pursued a strategic planning approach appeared having achieved better performance both in financial and competitive terms. That can be explained through focusing on those key strategic factors which, though not quantified, were identified as being directly related to success (Carr *et al*, 1994b). Such factors were knowledge of the market, products, technology and competition. Sophisticated, formal MIS does not necessarily result in better decision making (Carr *et al*, 1994a). As shown in the literature, strategic rather than financial considerations appear to be more important motivations for direct foreign investment (Eitman *et al*, 1991).

3. Research Questions and Methodological Issues.

The research method selected is the case study approach since it provides an in-depth analysis of the investing company and allows the researcher the opportunity to study in detail the organisational practices and decision making process. Field study research includes participant observation, interviewing and document analysis and is useful in order to study accounting within its organisational and social contexts (Burchell *et al* 1980). I studied two cases (companies) and carried out 50 interviews in total as well as conducting archival analysis.

4. Delta Dairy SA

4.1. Delta in the Greek market.

Delta's main stockholder is the Daskalopoulos family, which owns 56% of the share capital. The son is the managing director and CEO of Delta, and runs and manages the company. He is the key decision-maker in the FDI process. According to the latest corporate structure of Delta, the company has three separate operational divisions that are called strategic business units (SBU). The Fresh Food Division, which is the first SBU deals with the production, distribution and sale of milk, juices and fresh dairy products (yoghurt, desserts). Delta is the national market leader in milk. In juices, the competition is very strong and thus Delta attracts a market share of only 30%. Similar conditions exist for yoghurt. Ice cream is the second SBU in Delta. Delta is a major ice cream producer and distributor in Greece having an overall 48% of the total market. Its strategy focuses on the creation of strong brands with high added value. Frozen Foods is Delta's third SBU and the main products are frozen vegetables and various pies.

4.2. Delta's Internationalisation Strategy.

The strategy, analysed into goals and means, is expressed in the business plans and annual budgets that each of Delta’s SBUs prepares. Business plans have a three-year horizon but are reviewed yearly. A business plan could be characterised as strategic, depicting the long-term goals that should be achieved. The annual budget is more detailed in terms of financial figures and contains data on future income and expenses. Delta does not usually apply formal techniques like SWOT analysis in formulating its strategy. The time when formal analytical tools are used when entering a new business, but almost every expansion Delta followed was in a new market with its existing business. Good knowledge of the market and long-term experience from operations is considered by Delta’s managers to be an adequate basis for formulating corporate strategy.

During the late 1980s the company faced considerable growth both in sales and profits. The annual rate of growth was around 20% to 30%. In 1990 Delta was listed on the Athens Stock Exchange and in 1991 thoughts emerged towards the internationalisation of its activities and the first moves took place. The C.E.O. considered the Greek market in milk and ice cream to be very competitive, and felt that in the long run it would be stable making it more difficult to gain huge increases in market share. Thus, in order to maintain similar rates of growth in the future, Delta had either to diversify its activities in Greece or to expand into foreign countries. In line with the first strategic choice the company entered the juices market in 1989, invested in yoghurt production in 1995, acquired Frozen Foods SA and came to a strategic alliance with Danone, a French global leader in fresh dairy products. Recently, Delta has been considering expanding in the mineral water market in Greece, possibly in co-operation with Danone.

Concerning foreign expansion it was decided that Delta would rather enter a foreign market through FDI and not exports because of protectionism and lack of foreign currency reserves in Balkan countries. Also, these countries have been encouraging foreign investments because of the decrease in domestic production and the increase of unemployment. Delta chose to invest in the Balkans for the following reasons:

- The countries targeted are just next to Greece so very close to visit.
- There was a lack of considerable competition because strong western companies preferred to invest in Central - Eastern European states and not in the Southeast of Europe because of higher country risk, inferior infrastructures and poor industrialisation basis.
- Greek managers' potential for effective cross-cultural management was greater in the Balkans due to historical ties, similar habits, culture, etc, which allow them to understand the external environment in those countries and make valuable contacts with locals.
- There was a lack of strong brands, both domestic and foreign in these markets so it was less expensive for Delta to built brands.
- Existing low cost distribution channels are characterised by lack of expertise. Delta has the experience and is able to finance a high quality and high cost logistics infrastructure, such as refrigerators at sales points and suitable lorries. By building a network in such conditions, the investor gains a competitive advantage in the market and the company can build a barrier to entry to potential competitors. For Delta, distribution channels amount to around 50% of total investment and that explains the importance of a trading company.

Having resolved the question of which foreign market, the second major issue was what product(s) shall be produced and distributed there. The answer was ice cream because of the following:

- Ice cream offers a higher gross and net operating margin than other dairy products because it is not a basic commodity. As a result, the company is insulated in a way from high country risk being suffered.

- Sales point settings (refrigerator, posters, umbrellas, stands, etc.) self-promote the product.
- There was a lack of quality ice cream in these countries. Existing brands were few and characterised by low quality and poor packaging. Consumers needed new brands, a variety of tastes and, differentiated quality products.
- The local population's disposable income is low and in recent years the economic situation has not allowed spending on durable consumer goods. Therefore, better quality ice cream is not an expensive consumer good, but gives the illusion of a little luxury in every day living. (Similar goods are Coca-Cola, Macdonald's etc).

Delta's mission was to build a strong overall leadership position, targeting a high market share. This did not mean ignoring profitability but required allowing a time period of five years at least for the investment to yield. The strategy of entry in a foreign market was developed as follows:

- Domestic production for avoiding import duties.
- A relatively high selling price (premium) compared to local brands.
- Development of sales networks aiming to cover all the urban and semi-urban areas.
- A variety of ice creams and innovation.
- A strong management team from expatriates.
- A search for local partners. Their contribution was thought to be vital for dealing with red tape and resistance from local competitors. Delta was considering acquiring an existing plant or doing a joint venture in local production in order to reduce time and resources spent as well as risk.

4.3. Delta International Holdings (DIH).

Delta Dairy SA has created a fully owned holding company in Luxembourg named Delta International Holdings (DIH). Delta International as a holding company participates in or owns firms in which the parent company has made foreign direct investments or at least has a trading interest. The companies belonging to DIH are only ice cream distributors and/or producers and are currently located in Bulgaria, Romania, Yugoslavia, Former Yugoslav Republic of Macedonia (FYROM) and Ukraine. Delta International operates as a tax shell for Delta. Dividends, royalties and other remittances are transferred from foreign subsidiaries to DIH since in Luxembourg offshore companies are tax-free, so Delta can re-invest these amounts received in the future without incurring taxation. DIH has the responsibility for financing ice cream foreign investments, organising management reporting and consolidating group financial statements. Delta's ice cream SBU is responsible for running and monitoring foreign operations. Other business presence abroad from the remaining SBUs concern export or trading companies that do not belong to DIH.

As mentioned earlier, Delta’s internationalisation process started in 1991. By 1993 the first investment abroad, in Bulgaria, was ready. It was a joint venture with **Vitalact,** a state-owned dairy company and the former milk marketing board **LB Bulgaricum**. The joint venture owned **Delvi-P**, an ice-cream manufacturing plan and **Delvi-T**, which is a trading company. EBRD participated as a venture capital partner. In the beginning Delta had the majority of shares in Delvi-T while retaining a minority position in Delvi-P. Today, Delta controls both Delvi companies that merged last October. Also, Delta acquired Vitalakt and currently claims a 70% of the ice-cream market in Bulgaria. In 1994, Delta invested in a distribution company in Romania, **Delrom**. The idea was to invest in marketing networks, which would be supplied from exports from the Bulgarian plant at which production costs were 30% cheaper than in Greece. But next year the Romanian government increased its tariff on ice cream from 20% to 70%. Delta's choice was either to get out of the market or to begin local production. Therefore, the company decided to buy an existing local producer, **Queen**, and to expand further the current distribution network. The last huge FDI was in Yugoslavia, where tariffs are low, but quotas are imposed. Here, Delta invested in **Delyug**, a greenfield production unit. Delta has trading companies in FYROM and Ukraine that are being supplied from the existing production plans. Also, limited areas of Russia are covered through exports but on a rather experimental basis. The parent company is considering investing in Ukraine in the near future in order to develop its position in that market. Over the past decade, Delta has moved from being a Greek company with solely domestic markets, to having production and sales interests in a number of eastern European countries.

4.4. FDI decision process: The case of Bulgaria.

4.4.1. The Initiating Force.

As mentioned the C.E.O. was considering foreign expansion as a mean of preserving high rates of growth and dynamism in the company. The initiating force to consider investing in Bulgaria derived from a legal advisor to the company. That legal advisor had political connections in Bulgaria and operated there as a representative of various Greek firms. He suggested to the C.E.O. that Delta should be present in the Bulgarian market and offered to make needed contacts for that purpose.

The reason for selecting Bulgaria among other countries was rather political. It was the country beyond the borders, which appeared to be more stable at that time. Yugoslavia was in a better condition in terms of economic indices and industrial infrastructure until 1991, but the war and the consequent split of the federation prevented any second thought of investing there. Albania remained very unstable, with diplomatic disputes with Greece during the early 1990s and is still the poorest country in Europe. Bulgaria's economic condition was bad, but it was the only ex-communist state in the Balkans whose transition to democracy and market economy was almost without troubles.

4.4.2. Investigation and Screening.

Investigation and collecting data is the most important stage of the decision process because this information is vital in order to make a final decision. One of the main persons seeking information for Delta is the Business Development Director (BDD). The BDD usually goes first into the targeted country and participates in negotiations with local partners. He has to make all the necessary business and political contacts, to handle legal aspects and local red-tape. He executes consumer and market studies and examines the country from a macro-economic perspective. His role is to help create a firm ready to operate. Information about the economic and political environment as well as the market is important in order to examine whether a project fits the corporate strategy for expansion and to determine projected cash inflows. The International Business Director (IBD) assist the gathering of information. The IBD may have rich information on the market and how ice cream is being sold because before investing Delta had export or trading activity in many countries through a representative.

One reason for the almost entire dependency of Delta on its staff for the collection of market information was the absence of consultancy firms in Bulgaria during the period 1991-1992. Government reports on the economy were not reliable. Macro-economic data came from banks or the Economist Intelligence Unit. Governmental forecasts were much more optimistic than analysts' estimations. The business plan contained detailed information on demand, ice-cream production and consumption as well as market shares. This information was provided by state ice-cream industries but did not give any indication of consumer preferences, since under communist administration production did not follow the law of supply and demand. In the next main projects, Romania 1994 and mainly Yugoslavia in 1997, market information derived from the potential local partners of Delta as well as from market research performed by Delta’s staff. Also, external consultants were used by Delta for various tasks like market and consumer research, analysis of the ice-cream industry and competition, etc. All the information discussed above is crucial in order to decide whether the project will continue.

In Yugoslavia, Delta’s reason for investing was based on information about the per capita consumption of ice cream and about the sales volume per refrigerator. These data derived from a pilot study organised by Delta in 1997, in the major cities of Yugoslavia. Local consumption of ice cream was higher compared to any other Balkan country and almost reached the levels in Greece. This occurred due to the co-operation in the past of multinational companies like Unilever with local producers. So, Yugoslavia was a good case for investing despite the tough political situation.

Country risk (political and economic) is a major element of FDI decision making. Country risk was defined qualitatively. Political risk consisted of political change and instability due to transition from the socialist system of governance to the democratic system. Because that process was underway, no business law and other legislation existed and it was difficult to rely on authorities that might not exist the next day. Other reasons for political risk had to do with tensions existing between some Balkan countries, minority issues, and security problems. Country risk has to do with a country's macro-economic environment as well. Risk factors under consideration include rising inflation, unemployment, exchange rate volatility, decrease in GNP, the cost and availability of funds, etc. The investor is concerned about public finance policy, import duties and foreign currency availability. Also, economic conditions determine the expected demand for ice cream and thus the future cash flows. Furthermore, instability of local currency will influence sales price, the cost of imported raw material and remittances of dividends. In the business plan for the Bulgarian project, Delta introduced in its analysis a link between consumers' disposable income and the per capita consumption of consumer goods. Disposable income is the average income per consumer that can be used either for consumption or for savings. In other words the disposable income is the income received net of taxes and other withholdings. Delta estimated that the first years’ reductions in disposable income would result in a decrease of demand for ice cream, and later there would be a reversal of that trend. It is evident that, in the analysis of calculating future sales, the main factor was not competition and market shares but whether the Bulgarian customer would have enough money to buy ice cream, in other words whether the market was expected to grow or shrink.

4.4.3. Implementation of decision and negotiations.

Having prepared a project's BP, the business development team makes a presentation to the C.E.O. and to the management committee. The management committee is informal. If the proposal is accepted then follows the implementation stage. That entails recruitment of new staff, finding overseas offices, sending a management team from Greece to deal with the details of the project and make a plant operational, signing contracts and agreements, and making capital investment expenditures.

The final decision is dependent on the outcome of negotiations that Delta's executives have with potential local partners. If the negotiations failed the BP would not be implemented as such and consequently it would have to be materially altered or even withdrawn. In Bulgaria, Delta started negotiations for a joint venture with the largest state owned dairy company, named **Cerdika**. Cerdika appeared to have many advantages. It was settled in the capital Sofia and had higher market-share than its competitors. But with the political instability in the early 90s, Cerdika had no permanent top executives, since every month another C.E.O. and board were appointed. There was not a set basis for talks. Delta next considered the market's number two producer, Vitalakt, whose C.E.O. had personal power and had been twenty years in his position. Delta took data on the market from Cerdika to build the BP. The company started negotiations with Vitalakt later, and just after having presented the BP, the two future partners signed a letter of intent. Delta took a decision to invest in Bulgaria and found someone to co-operate with, but nothing was yet finalised. After signing the letter of intent, the main part of negotiations started and lasted over 14 months.

Delta would agree only under specific terms. These terms involved having management control, the majority in share capital and a trading company separate from the other activities of Vitalakt. On the other side, the Bulgarians did not want to loose control. The outcome was that a joint venture comprised of two separate companies was established. Delvi-T was the trading company in which Delta had the majority of share capital. Delta's contribution was in used carriage lorries and refrigerators. Vitalakt controlled Delvi-P, the production plant and Delta held 23% of shares. This 23% represents the contribution by Delta in used machinery. The percentage was determined through valuation of the machinery by both parties and a subsequent mutual agreement. As it is understood, Delta was trying to reduce risk by offering cash only for working capital while their main contribution to the investment was fixed assets previously in operation in the Athens plant. The rule was that when investing in a high-risk country, the investment should grow gradually to reduce risk, getting experience and managing self-financing expansion through existing cash flows. Delta had to deal with bureaucracy in both Bulgaria and Greece. In Bulgaria there was no legislation about foreign investments and joint ventures so, Delta's case was used as a pilot for a bill on such issues.

5. The emerging nature of strategy and the role of politics in FDI decision making: The case of Delrom (Romania).

The presence of Delta in Romania dates from 1992. Delta started exporting ice cream to the Romanian market through a representative. The ice cream was mainly produced in Bulgaria and was the first impulse ice cream to be imported ever in Romania. The sales of Delta ice cream in the country grew considerably and it was understood that the representative could not manage the distribution of the quantities demanded. Delta demanded that in order to finance the expansion of the sales network, it should participate in the ownership and management of the local distributing company. Then, in 1994, Delta decided to form a joint venture with the sales representative company named Delrom. The initial plan was for Delrom to be a trade company, supplying ice cream from Bulgaria, where the plant's capacity was able to cover the existing demand in Romania. Second thoughts and suggestions appeared for establishing production facilities in Romania as well. The main argument was that local production would strengthen Delta’s position in Romania and would reduce the cost of sales, which consequently would allow the company to sell at competitive prices.

In June 1995 the Romanian government announced a considerable increase in import duties for ice cream that effected a dramatic increase in the cost and selling prices. Delta communicated with the ministers of commerce and agriculture seeking to postpone the implementation of the new duties’ status. In line with that they promised to the Romanian officials that the company was willing to establish a production basis locally in the near future. Also, Delta emphasised the social role of the company in providing good quality and value for money products, and employing Romanians. Delta made contacts with state officials. In these discussions Delta managers presented their idea to invest in a yoghurt producing factory in Romania, since the Bulgarian ice cream plant was only 300km from the Romanian capital Bucharest. In that way, which was a preferred option for Delta, the company could cross exchange products and avoid import duties. The Romanian officials agreed with the idea for a yoghurt plant but said that avoiding duties through the exchange of goods between Delta’s factories in Bulgaria and Romania would be difficult to implement. However he concluded that these two countries were expected to sign an agreement concerning tax free trade. Romania had agreed similar treaties with other east European countries.

In 1996, Delta had to choose either to withdraw from Romania or to invest in a production plant and become fully involved in the market. It would have been very difficult for any foreign company to continue operations and existing sales volumes with such price increases after the introduction of the new custom duties on imported ice cream. It has to be noted that local ice cream producers, who offered low quality and low price products, affordable to the Romanian customers with their restricted disposable incomes, dominated the Romanian market. The decisive reason for Delta to continue business in Romania was the success of their investment in Bulgaria.

The next stage was to determine what kind of investment Delta would favour. The existing options were either to make a greenfield, or to buy-out a state company under privatisation and/or a joint venture with a local dairy company. Having the successful experience from Bulgaria, Delta preferred to make a joint venture. That would allow them to profit-out from their partners' experience and contacts, and also to save money and time and reduce risk through minimising the size and cost of their investment. Delta started negotiations with a local company for a joint venture that would produce and sell ice cream. The two companies reached a preliminary agreement in autumn 1996 and they were about to sign the final association for co-production of ice cream when, after the Romanian presidential elections, the president of Romania changed. Due to that change all negotiations stopped and pre-final agreements between foreign investors and state companies were «frozen."

At this point a short review of Romanian politics is useful. Like other east European states, Romania had a communist government until 1989, when the then president Nikolae Ciaousescu was violently removed from power. The new political elite in these countries mostly derived from the previous regime and was made up of people who during the last period of communist rule, expressed scepticism or suggested changes towards the new international conditions. So, the successor to Ciaousescu was Iliescu, ex-member of the communist party and founder of the socialist party during the post-communist era. Iliescu was the first democratically elected president of Romania and preserved many communists in the state hierarchy. Of course his administration supported reforms of the political and economic domain. As mentioned Iliescu was socialist, so many characteristics of the previous political situation survived during his presidency. In 1996, after the presidential elections he lost power to his rival Emil Constantinescu, candidate of the centre-right coalition.

A change of the head of state in Romania was considered a very important political event because for the first time after more than fifty years a right-wing politician was chosen to govern the country. Romania did not have a democratic tradition and, given the degree of state interventions in the economic sphere, a change in the system and the mentality of public administration had many implications for doing business. Additionally, state owned companies refused to make commitments that might predetermine the new government's policy and be a reason for conflict between their managers and the state. In similar cases, managers, associated to the previous political situation, were afraid of legal action taken against them from the new administration based on allegations for corruption. Thus, in order to protect themselves, the managers of the local ice cream company avoided any final agreement with Delta, which might not have been ratified by the new officials.

Facing that new situation, Delta's executives were afraid that there was a high possibility for the company not to be ready to sell in Romania locally produced ice cream in 1997. Delta's choice was either loosing commercially the following year while looking for the optimum solution, or trying to start production no matter what would be the case. The initial decision was not to loose time, so the company preferred the option of acquiring an existing privatly owned, minor producer of ice cream, named Queen.

6. Uses of Accounting Information in the FDI decision process.

According to most of the executives in Delta, the FDI decision is based more on "hunches and feelings than in numbers" (Business Development Director, 1999). For at the Bulgarian project in particular there were not reliable figures to perform financial and time series analysis. Negative economic forecasts and high risk were prohibitive for investments in the short run under rational decision criteria. To this extent, the C.E.O. had to be convinced that there was a business opportunity and that the only important risk variable was the time period required for the project to mature. Projections of sales and cash flows were mere hypothesis and subjective assumptions about the future. In the projects that followed, the degree of subjectivity may have been reduced, due to experience and better information, but not eliminated completely. In Bulgaria, cost analysis was based on some crude estimates. It was not possible then to predict how wages, inflation or exchange rates would evolve. Cost variables from the Greek experience were not always applicable because of very different conditions. Financial analysis was performed and used as an indicator for decision making.

The financial techniques that Delta applies to its analysis of capital investment projects are ROI, IRR and NPV. The treasurer provides in full the WACC calculation. Country risk is included in the WACC analysis and it is expressed by the market premium that the investor requires from the investment. As previously discussed, the market premium is a subjective estimate. Delta applies the market premium for each country as suggested in official publications like the Economist Intelligence Unit. The NPV of a project, having applied the

WACC, was sometimes negative. In that case the treasurer notified the C.E.O. about the outcome but in reality no investment has been based exclusively in the outcome of a DCF model. As the treasurer says, relying only on NPV no investment would have take place in the Balkans. Greek entrepreneurs made FDI decisions with their instinct. Any decision to invest or not is usually made prior to any formal business plan presentation or NPV computation. The decision is based on a feasibility study with several arbitrary facts and figures and relying on market and strategic criteria. Delta chose to expand in the Balkans because there was no substantial competition and thus there would be great advantages in the future from being the first to enter the market.

7. Conclusion: The Decision criteria applied by Delta.

Most of the criteria applied to decision making could be characterised as more strategic than merely financial. The company believes that indicators of the market and the country in general are critical in the FDI decision process. Fundamental information available at the screening stage determines materially whether the investment occurs or not. Another decisive factor is the outcome of negotiations. According to the previous analysis and the interviews' output, Delta requires that the following criteria should be met in order for a FDI proposal to be accepted:

- Positive expectations about the country and market.
- Leading position in the market.
- Growth on sales and a high market share.
- Break-even in profit by the third year.
- Satisfactory profitability ratio for capital employed.

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