

Doing Business in Romania between Hopes, Realities and Risks

Gabriela Marchis¹

Abstract: After a decade of economic turmoil, emerging from globalization, the entrepreneurship can be seen as an opportunity for overcoming the impact of the crisis. This article highlights the main aspects regarding Romanian entrepreneurship, as a potential source of revitalization of the economy, in line with the evolution of European business environment. It tries to familiarize the readers with the environmental characteristic of businesses in Romania. Hence, it is divided in two main parts. The first one highlights the economic and social dynamics, describing the general framework for doing business in Romania, which represent the “fertile soil” for developing entrepreneurial activities and the second part tries to identify the most important environmental variables that characterize Romanian business environment, emphasizing the opportunities but also the challenges for business activities. The results of this study should not be generalized but considered as indicative.

Keywords: entrepreneurship; SMEs; Europeanization; strategic judgments

JEL Classification: L26; M21

1. Introduction

The European business environment was strongly affected by the world economic downturn, but the impact of global recession was perceived differently by entrepreneurs, depending on the phases of their business process and also on their type of national economy: *factor-driven*, *efficiency-driven* or *innovation driven*. Accordingly with Global Entrepreneurship Monitor (2015÷2016), Romania is classified in *efficiency-driven* group, together with Bulgaria, Croatia, Estonia, Hungary, Latvia, Poland and Macedonia. Figure 1 reflects the general feeling of Romanians toward entrepreneurs and entrepreneurship.

GEM 2015/16 Report indicates also the extent to which people think there are good opportunities for starting a business and their capabilities to do so, and also, the level of risk individuals might be willing to assume and their fear of failing. This information is very important because people that have the necessary skills to recognize and to explore business opportunities are central for business environment

¹ Associate Professor, PhD, Department of Economics, Danubius University of Galati, Romania, Address: 3 Galati Blvd., Galati 800654, Romania, Tel.: +40372361102, Corresponding author: gabrielamarchis@univ-danubius.ro.

development, and as a consequence, a positive attitude towards entrepreneurship should be sustained by integrated policy responses from different policy areas.

As it may be observed in figure 1, even if the fear of failure in starting a new business little increased in Romania, in 2016 comparatively with 2010, all the other indicators improved in the last years and starting a business is being perceived more like an opportunity. Thus, the option of being an entrepreneur is becoming slowly more attractive than being an employee.

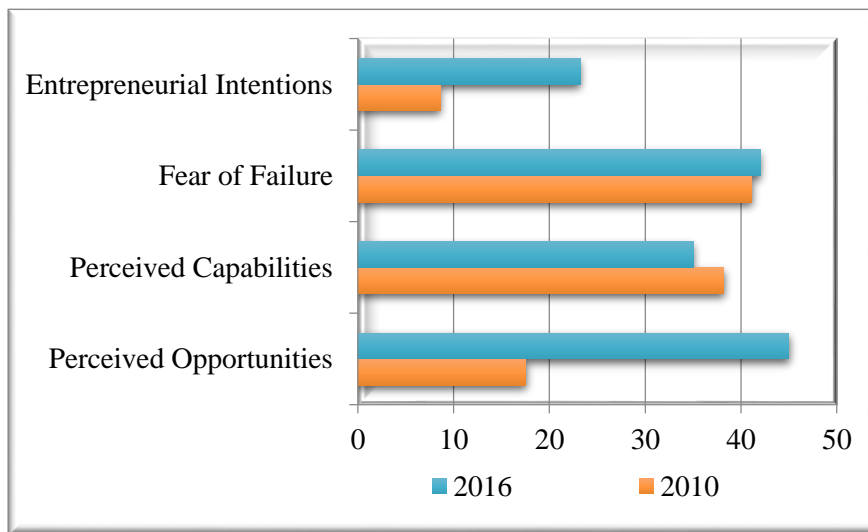


Figure 1. Transition of Entrepreneurial attitudes and perception in Romania 2016 vs. 2010

According to Forbes' list "*Best Countries for Business*", Romania ranks 44 of the most attractive economies in terms of business. Forbes (Forbes.com LLC TM, n.d.), which analyzes 145 countries, is conducted according to 11 criteria, namely free trade, a category in which Romania 9th place, the monetary freedom (67) property rights (54), innovation (74), technology (46), bureaucracy (40), investor protection (57), corruption (62), personal freedom (41), the tax burden (50) and market performance (30).

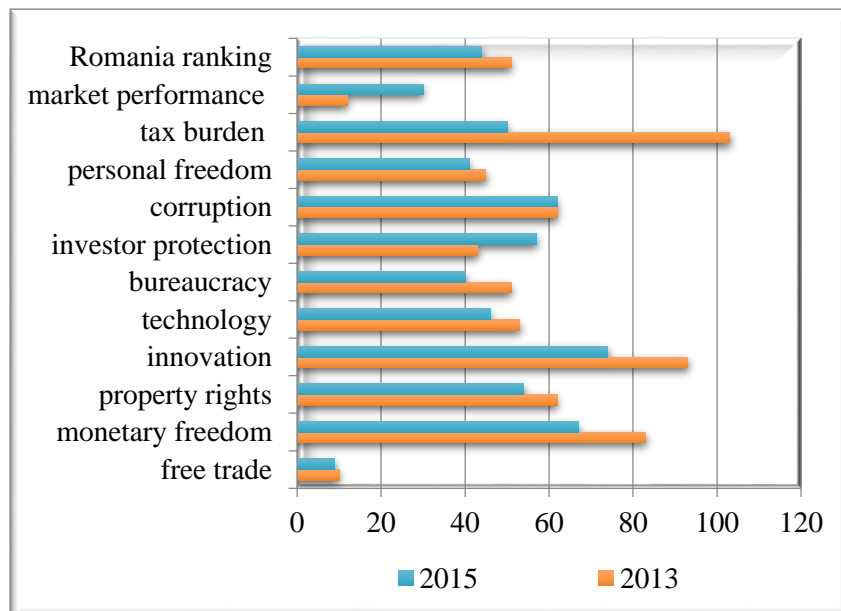


Figure 2. Romania ranking according to Forbes' list 2015 vs. 2013

As it may be observed in figure 2, most of the indicators improved in 2015 comparatively with 2013, but corruption and investor protection are still affecting the business environment.

Romania ranks 37 of 189 countries in the annual ranking of business conducted by the World Bank: “*Doing business 2016*” (International Bank for Reconstruction and Development / World Bank, 2016).

Nevertheless, Romanian entrepreneurship still remains “*under construction*” and the business climate is characterized by greater caution, reduced liquidity, reduced flows of foreign capital, more stringent regulations and actions in order to minimize the risk, which are considerable reducing the capital invested. Trust in business has diminished substantially and will take a long time to return to the previous level of 2009 because the costs of recovery are still important, the remedy of negative effects of the crisis is difficult to implement, and prevention of further similar turbulence is an object on which policymakers still deliberates.

2. Doing Business in a Globalized Word

There are a **multitude of factors** that play a great influence over entrepreneurial environment. Among of these, the *political factors* represents the greatest influence on business environment development. Mainly, because the political regime in a

particular country and/or geographical area is responsible for managing the entire process of planning, implementation and evaluation of integrative strategies of development. Moreover, the degree of centralization and/or decentralization in terms of legislations, decisions and also funding, plays an important influence on entrepreneurship environment. The less is done at higher levels, the more local political actors must find their own solutions for spurring the business environment. Withal, an entrepreneur should be aware of the market conditions on which his/her business operates. Thus, the *legislative framework* is another important factor with a great influence on entrepreneurship development. It includes a wide range of normative documents, from *local-authorities decisions*, *national legislation*, *European regulation, guidelines and directives*, and also to *international agreements*. Entrepreneurs are invited to participate in the process of setting up the legislative and normative documents, both on national and communitarian level, but their active involvement in this consultation phase depends mostly on their education as active-citizens and also of the usage and mentality of the society they live in. The *inter-related challenges in the world*, emerging from local, regional, national and global realities are also affecting the business environment. Even if the economic turnover is the lightest example, this category of factors that bring pressure on the life of European companies includes: armed conflicts events; international agreements; trade embargos; the influx of migrants; the politics of states that have a market monopoly; climate change effects and etcetera. *Technological transformation* and the velocity of spreading abroad put pressure on companies' activity and their productivity. Furthermore, the process of *population ageing* is an important challenge for business environment.

Also, other *social factors* are also very important, because they can be found both in the external environment (suppliers, customers, officials, investors, business partners) and the internal environment of the company (employees). Last but not the least, the *financial factors*, which include financial and banking institutions (National Bank policy, Stock Exchange) and their policies and instruments (loans, loans from the state, European funds, etc.) have an important influence on business environment evolution.

These factors manifest themselves differently and with a vary level of intensity in accordance with the specific framework of a country.

Europeanization is a very complex process that involves three types of interaction forces, between EU citizens, among EU member states, and between EU and the rest of the world. The synergic effect of these interactions requires an integrated strategic approach of economic and social development because without a common vision there is the risk that EU become a chaotic world. Achieving the full potential of economic and social development requires a perfect integration among different policies and their delivery mechanisms, which may be obtained only by European

governance. The integrated strategic evolution of EU-28 will ensure stability and predictability of business environment.

3. Is the Fear of Entrepreneurs for Developing Business in Romania Founded or Not?

First of all, let's have a look at the country profile. Situated in the geographical center of Europe, in the south-east part of Central Europe, Romania has a various *geographic characteristics* that may represent an opportunity for any business activity, whatever the field is: agriculture, industry, construction, tourism and etcetera. These geographical characteristics can spur business development because of the great potential of natural resources which can be used in different economic activities, from agriculture to industry or services.

The status of EU member states, achieved on January 1st 2007, even if by definition represents a positive aspect for business environment development, in reality because of the absence at national level of an integrative strategic behavior; the advantages of EU membership could not be felt. A study regarding the entrepreneurs' perceptions about the effects of EU accession showed that even if the majority considers that EU membership represent an opportunity for doing business, 42% of Romanian entrepreneurs consider that EU accession cannot bring "by default" a development of business environment. (Consiliul National al Intreprinderilor Private Mici si Mijlocii din Romania - CNIPMMR, 2015) Also, the study revealed that the perceptions of entrepreneurs vary in accordance with the branch of activity of their business (table 1). Moreover, knowing that business planning and forecasting represent "a must" for business success, it is very difficult to act as veritable entrepreneur in Romania where "change" is a commonplace.

As the theory teaches us, a good entrepreneur makes *smart decisions* identifying potential challenges and involving the right people who will address different problems that arise in the evolution of the business. But, *right strategic judgments*, may occur only if entrepreneurs fully understand what kind of business works and what business models make sense on the market.

The algorithm for strategy implementation consists of the following steps:

1. setting a "target" of long-term development (*vision*);
2. setting measurable *strategic objectives* in the medium term;
3. defining ways of action to achieve the objectives set out above (*development strategies*)
4. determining the *activities* to be undertaken in order to implement the strategies defined in the previous step.

Having established these elements, the entrepreneur will focus on the planning of the following restrictions: *time*, *cost* and *resources*.

Table 1. Entrepreneurs' perceptions on the implication of EU accession on their business activity

Branch of activity:	Romania accession into EU is considered to be:		
	Major opportunity	Major threat	No significant influence
Industry	49.20%	6.20%	44.6%
Construction	63.41%	7.32%	29.27%
Trade	46.23%	3.46%	50.31%
Transport	68.66%	1.49%	29.85%
Tourism	72.73%	2.60%	24.68%
Services	60.98%	2.54%	36.48%

But between theory and practice seems to be a huge gap. *How can entrepreneurs predict the future of their business activity, if there is no vision of development of economic activities at national level?*

According with the “White Paper of SMEs” (Consiliul National al Intreprinderilor Private Mici si Mijlocii din Romania - CNIPMMR, 2015) the activity and performance of Romanian SMEs are negatively influenced by *unpredictable economic development* as a consequence of international crisis (55.85% of all SMEs), *insufficient capacity of the Government and Parliament to adopt a coherent anti-crisis program* (33.16%), *instability and inconsistent legislation* (43.71%), together with *proliferation of bureaucracy* (28.51%) and *a great intensity of corruption* (42.25%). In addition to this, the *insufficient predictability of the environment for companies* (21.31%), *political changes in the state leadership* (12.58%), the *banks' lending policies* of companies (16.65%), *the climate and social tensions* (13.45%) adversely impact on business development.

Permanent changes of rules, legislation, decision-makers, involve a continuous state of transition and require entrepreneurs to have a strong capacity to adapt.

The risk for business environment arises from the fact that changes in Romania are addressed from the “candle” perspective. (A candle illuminates your path but only for a very short distance without allowing you to see the entire road. So, you need to adapt continuously without knowing the direction you are going to.) This might be the reason why 44.93% of Romanian entrepreneurs consider the accession into EU as a *major opportunity*. (Consiliul National al Intreprinderilor Private Mici si Mijlocii din Romania - CNIPMMR, 2015). Being a part of European Union, Romania is forced to act in a more organized manner, respecting the communitarian calendar in designing its strategies of development, and receiving, where the case is, technical assistance, from the EU partners.

Thus, Romania's accession to the European Union represents a major opportunity to modernize our economy and address the deficiencies of economic development so as to increase the quality of life and reduce the gap with the rest of EU member states. Moreover, the European financial assistance may substantially contribute to economic and social progress, major changes being possible through European grants in order to overcome the recession's effects. It is essential to point out that even if the economic downturn passed, the effects are still strongly felt. In front of this economic turmoil, entrepreneurs have expressed *mixed attitudes*. Thus, passivity has manifested by a lack of response on the "wait and see what happens" principle, while active attitudes aimed to drastically reduce the spending, evidenced by lower costs, postponing investments, holidays without pay, slowdown of current activities. Basically, reducing expenditures aims to *re-energize economic activity* going through three stages: **repositioning - reorganization - redirection**. Strategies for recovery from the crisis have focused equally on market share growth, but also the innovative placement of products on the market. Thus, the main actions of the entrepreneurs were: price competition, increased marketing efforts, entering new markets, and offering new products.

But this *adaptability* to new economic realities can be ensured only through **targeted funding**. At first glance, the chart of financing sources available to SMEs seems very diverse¹, but efficiency and effectiveness of these financing mechanisms is determined by how they are managed by national and/or regional authorities. The economic turmoil has negatively influenced *the supply of credit addressed to SMEs*, the descending trend in lending being felt in the entire Union not only in Romania. SMEs need *support and financial incentives* to face the pressures of countering the effects of economic crisis, which has caused a drastic reduction in sales and therefore profits, with particularly strong effects in the short term. Therefore, the crisis has affected the competitiveness of SMEs but also their access to finance.

The impact of economic and financial crisis revealed the need to implement structural instruments, their significant contribution consisting in *setting up the essential conditions for investments*.

Investments in basic infrastructure are a priority because they can generate a modern economy. Also, the investment in human resources development is a necessity in the current demographic context at the European level, one of the main challenges of 2020s stage being demographic change.

In order to address this challenge, the entrepreneurs should invest in trainings of their employees and in innovative projects. *Human resources investments* are central because, only with trained and well-educated personal, a business will flourish and will become more competitive on the market. It is already known that the success of

¹ For example: private loans, commercial loans, bank loans, leasing operations, micro-credits, European financial assistance, securities issues on capital market, etc.

any enterprises is generated mainly by dynamic, confident and creative personal. *Innovative projects investments* represent another area on which entrepreneurs should focus their attention in order to improve their manner of doing business by bring the best practices and technologies in their company and, also to discover new opportunities for doing business in accordance with the market demand.

The dimension of entrepreneurial environment in Romania is presented by a study in the field, entitled “Romanian Entrepreneurship – Collection of success stories” in the form of the *SWOT Analysis of Romanian Entrepreneurship*.



Figure 3. SWOT Analysis of Romanian Entrepreneurship
 Source: Adapted from (Fundatia CADI Eleutheria, 2011)

4. Final Remarks

Even if the entrepreneurship can be seen as a potential opportunity to revive the Romanian economy, the framework under Romanian entrepreneurs operates is still very unsafe and unpredictable. As a consequence, the required qualities for an entrepreneur who wants to start a business in Romania are: *ingenuousness*, highly *motivated*, extremely *resistance*, *tenacity* and *veritable courageous*. From this short radiography of Romanian business environment it is obviously that it is constantly changing and, as a natural consequence, the business success is determined by the *ability of the entrepreneur to anticipate and adapt to changes*. In addition, the entrepreneurs must be kept focused on the challenges of 2020s stage: globalization, climate change, ageing, and scarcity of energy supply. Meeting these challenges implies the transition to an economy based on *knowledge and services* and this process is supposed to be as revolutionary as the preceding reorganization of the economy, from *agriculture to industry*.

5. References

- Bradenburg, K.H. (2009). Interview. *Panorama inforegio*, p. 9.
- European Commission (2011). *Antreprenoriatul dincolo de întreprinderi noi: Antreprenori pentru a doua oară și transferul de întreprinderi. Secretul succesului/ Entrepreneurship beyond new enterprises: Contractors for the second time and the transfer of enterprises. The secret of success*. Luxembourg: Office for Official Publications of the European.
- Consiliul National al Întreprinderilor Private Mici și Mijlocii din România/The National Council of Private Small and Medium Enterprises in Romania - CNIPMMR. (2015). *Carta Albă a IMM-urilor din România/The White Charter of SMEs in Romania*. Bucharest: Sigma.
- Consiliul National al Întreprinderilor Private Mici și Mijlocii din România/The National Council of Private Small and Medium Enterprises in Romania - CNIPMMR. (2013). *Carta Alba a IMM-urilor din România/The White Charter of SMEs in Romania*. Bucharest: Sigma.
- European Commission: Directorate-General for Employment, Social Affairs and Equal Opportunities Unit G4 (2008). *Continuing the Diversity Journey, Business practices, perspectives and benefits*. Luxembourg: Office for Official Publications of the European.
- Forbes.com LLC TM. (2016). Forbes. Retrieved from forbes.com: <http://www.forbes.com/places/romania/>.
- Fundația CADI Eleutheria (2011). *Antreprenoriatul în România. Culegere de povești de succes/ Entrepreneurship in Romania. Collection of success stories*. Bucharest: Fundația CADI Eleutheria.
- Kelley, D.; Bosma, N. & Amoros, J.E. (2010). *Global Entrepreneurship Monitor*. Retrieved from 2010 Global Report: <http://www.gemconsortium.org/>.
- Kelley, D. Singer, S., & Herrington, M. (2015/16). *Global Entrepreneurship Monitor*. Retrieved from: <http://www.gemconsortium.org/>.
- International Bank for Reconstruction and Development/World Bank. (2016). Doing business 2016. Retrieved from <https://openknowledge.worldbank.org/handle/10986/22771>.
- Schwab, K. & Sala-i-Martin, X. (2012). *The Global Competitiveness Report 2012-2013*. Geneva, Switzerland: World Economic Forum.
- The Economist (2013, December 23). Retrieved December 2013, from <http://www.economist.com/blogs/theworldin2014/2013/12/social-unrest-2014>.