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Rizea (Pirnea), Ionela Carmen

"Constantin Brancoveanu" University, Valcea, Romania

9 May 2011

Online at <https://mpra.ub.uni-muenchen.de/31475/>

MPRA Paper No. 31475, posted 13 Jun 2011 04:30 UTC

# **Analysis on business sector in Romania regarding the performance in the context of global economic crisis**

Ionela Carmen Rizea (Pirnea), Teaching Assistant „Constantin Brancoveanu” University, Valcea, Romania,  
Ph.D. Candidate, Bucharest Academy of Economic Studies, Romania

## **Abstract**

*Economists argue that the SME sector is the most important Romanian economy and also the only sector that can bring economic recovery. The entrepreneurs are the key to economic recovery and stimulates the enhancement of SMEs to contribute to ensuring economic growth resources in difficult times. Paper aims to reflect the impact of global economic crisis on the number of SME development in Romania. The article is based on an analysis of research conducted by the Doing Business Report 2010, at the level of 183 countries worldwide. Article highlights the performance of the business environment in Romania, according to Romania's position on the indicators evaluated in the league.*

**JEL classification:** L25

**Keywords:** performance, economic crisis, SMEs, indicator

## **1. Introduction**

Peter Drucker said that "small business is the main catalyst of economic growth." These businesses contribute to the basic objectives of any national economy, becoming the "driving forces" of economic and social progress [3].

Small and medium enterprises represented primarily by small businesses, are the engine of the European economy. Most businesses in the European Union are small businesses [2]. SMEs play a decisive role in European competitiveness and economic growth. To help them realize their growth potential, the EU promote entrepreneurship and create a favorable business environment for small businesses.

SMEs have become increasingly important in our society as providers of employment opportunities and key elements for the welfare of local and regional communities. Unfortunately, SMEs have been quite affected by economic and financial crisis [7].

## **2. Impact of global economic crisis on the number of SMEs in Romania**

Currently, the economic crisis has seriously affected a number of companies and has produced a series of changes in short and long term strategies, particularly in the context of the Romanian market where it has entered a number of companies offering competitive products and services of the local market [4].

Impact of global economic crisis was felt strongly in the Romanian economy as a whole, which was affected by a substantial slowdown in growth, with immediate adverse effects on people and companies focusing primarily jobs and sales volume. Romania's SMEs have been affected by economic crisis and lack of coherent economic programs, excessive bureaucracy and corruption had a negative influence on the performance of small and medium enterprises. [8].

In 2007-2009, the development of SMEs has revealed a number of particular issues [5]. The process of entry and exit from the market in the SME sector is a natural one stemming from the building upon its characteristics of new market opportunities and adapt to innovation, technological development, qualitative change and orientation towards the needs and customer demand continues.

## Join SME Development in 2007-2009

Tabel 1

Period	2007	2008			2009		
		Sem.I	Sem. II	Total an	Sem.I	Sem. II	Total an
<b>Registrations</b>	140.073	76.460	64.182	140.642	60.979	55.043	116.022
<b>Strike-off</b>	20.401	6.495	11.181	17.676	12.037	31.578	43.615
<b>Suspensions</b>	12.012	7.194	4.825	12.019	71.250	62.112	133.362

Source: Annual Report on the SME sector in Romania, developments between the difficulties and challenges, 2010, section "Publications", pg.28.

One can see that in the crisis year 2009, the establishment of SMEs has continued at a less dynamic, while output rose sharply in the economic environment by radiation and in particular the suspension of activity [1].

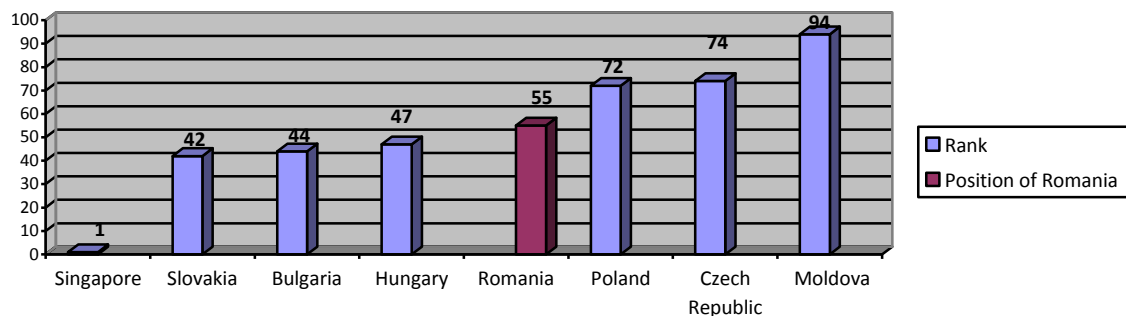
Thus, in 2009 more than 133,000 SMEs have suspended activity compared with only 12,000 in the year 2007 and 12,019 in 2008, representing an explosive increase of over 11 times compared to previous years. It is also apparent that the suspension of activity had a spectacular dynamic, both as compared to the previous years and compared with the number of erasures final. The main form of exit from the market in 2009 was susăendarea activity which has grown three times larger compared with the number of erasures.

The fact that in 2009 the creation new SMEs has fallen dramatically demonstrates on the one hand, potential coaches of Romania, on the other hand, need to support the development of SMEs, as an exit and a way to revive economic growth [6].

### 3. Analysis of international competitiveness of the business sector in Romania

"Doing Business Report" is one of the most comprehensive global comparative studies are conducted regularly at intervals of one year and is conducted by the World Bank. Research conducted annually comprises 183 countries worldwide [2].

Global economic crisis in Romania were the loss of 10 positions in the global rankings on the ease of doing business. Thus, the overall index on "ease of doing business" ranked 45 places Romania in 2008 and ranked 55 in 2009, ranking of 183 countries surveyed. In the figure below we can see Romania's position in the rankings, but also important in this neighborhood hierarchy.



**Figure 1 - Romania's position in the overall standings Doing Business Report**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

It can be seen from Figure 1 that the index in terms of overall "ease of doing business", Romania ranks 55 and positioned in front of Poland (position 72), Czech Republic (item 74) and Moldova (position 94), but behind Hungary (position 47) and even Bulgaria (item 44).

Figure 2 presents the seats obtained by Romania, in terms of each indicator included in this analysis, the dynamics of the two years 2009 and 2010. The analysis highlights both the set of 10 indicators of deterioration in previously held positions as well as improvements in performance on other criteria analysis.

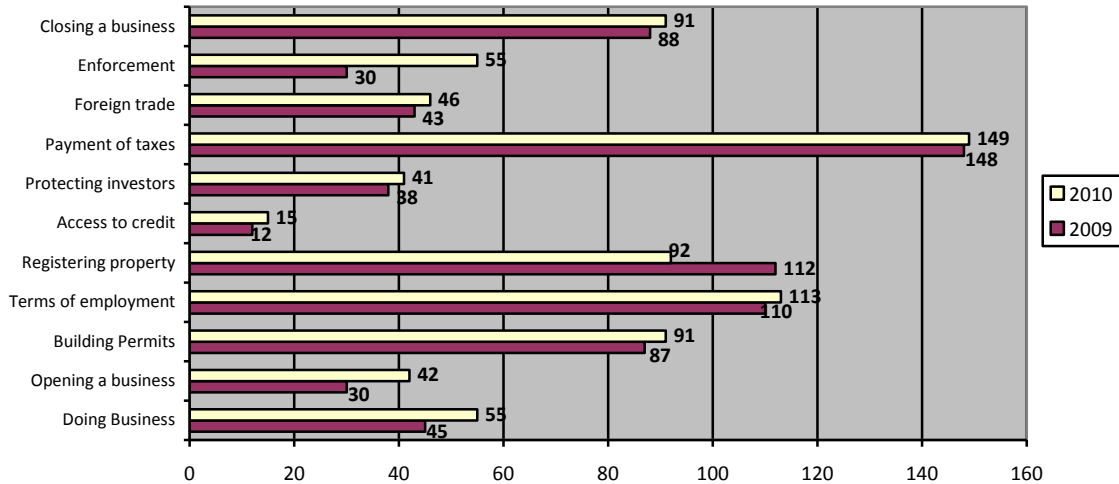


Figure 2 - **The evolution of Romania's position in relation to each indicator in 2010 and 2009**  
 Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

Overall business targeting global index, Romania lose 10 positions. As can be seen in Figure No. 2, causes deterioration of the position in the rankings are due to loss of position in nearly all criteria for analysis, but with a significant loss, ie 15 positions at the indicator "Enforcement", 12 positions to the indicator Opening a business.

*The only indicator where Romania's position has improved in ranking is "Registering Property" and 92nd position in 2010 compared with 112 in 2009 [2].*

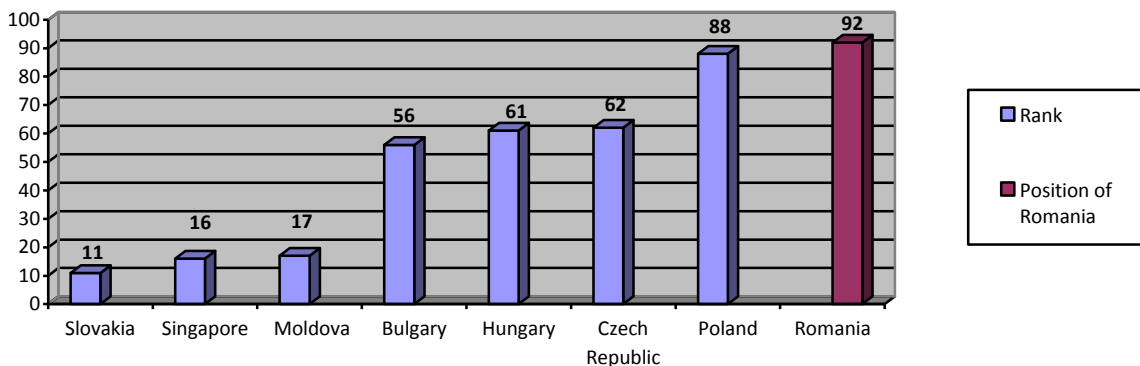


Figure 3 - **Romania and neighboring position in the rankings depending on the indicator "Registration of property"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

The "Registration of property, although improved by 10 positions in the rankings, placing Romania (92nd) far behind many countries in the region, namely from Poland (position 88), Czech Republic (item 62), Hungary (position 61), Bulgaria (item 56).

Also in the world ranking, positioning can be observed on top of Moldova (position 17), Slovakia (item 11).

#### 4. Research methodology and results

Based on the foregoing and considering the fact that Romania has lost the position in almost all indicators included in the analysis, research based on analysis of Romania and neighboring position in the rankings according to each indicator separately, using data supplied by Doing Business Report.

##### *Place 149 for the indicator "Payment of fees and taxes"*

This index places Romania on the world ranking 149 with a total of 113 payments per year, with payment procedures that involve a number of 202 hours allocated to a level of gross sales tax 16.04% taxes employment and social security contributions as a percentage of 34.2% and a total tax rate that amounts to 44.6%.

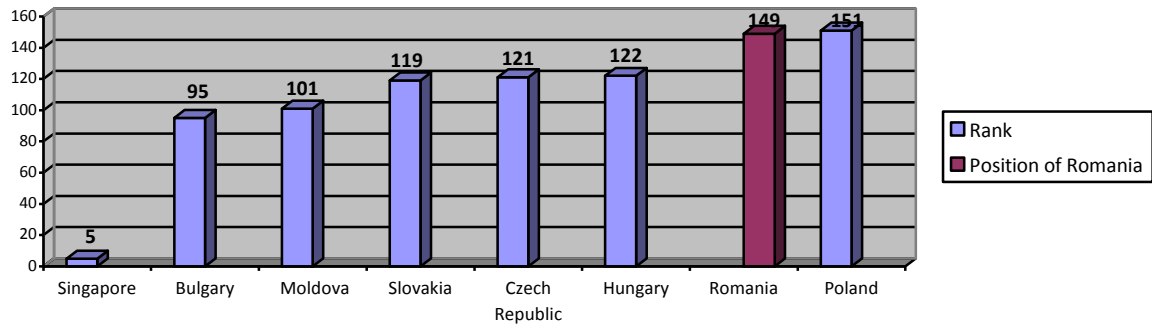


Figure 4 - **Romania's position in the neighborhood and according to the indicator tables "Payment of fees and taxes"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

In the above figure can be seen that all countries in the region included in this analysis is placed in the second part of the rankings, that the position 95, occupied by Bulgaria and to position 151, occupied by Poland. Except in Poland, Romania has the most disadvantageous position, which leads to the conclusion that the adoption of public policies, regulations and systems to simplify the required paperwork and procedures administratively easier to pay taxes.

##### *Place 113 for the indicator "conditions of employment of labor"*

This place 113, positioned Romania just ahead of Moldova (position 141) and far behind Slovakia (position 81), Hungary (position 77), Poland (position 76), Bulgaria (position 53) and the Czech Republic (item 25). The latter being the best positioned among all states in the region on this indicator.

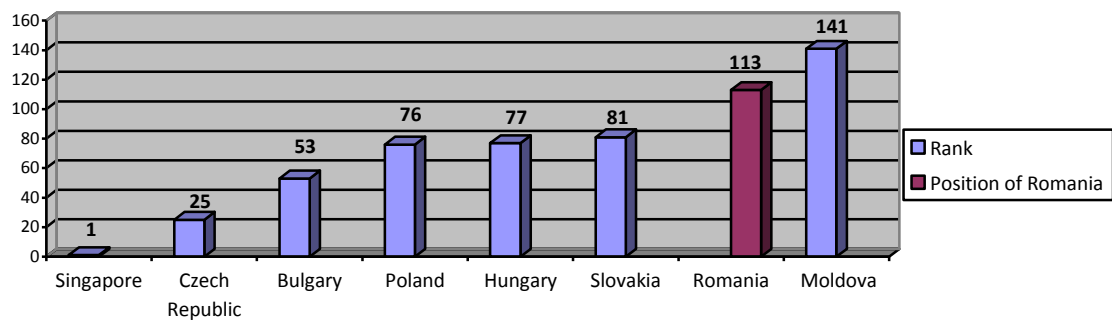
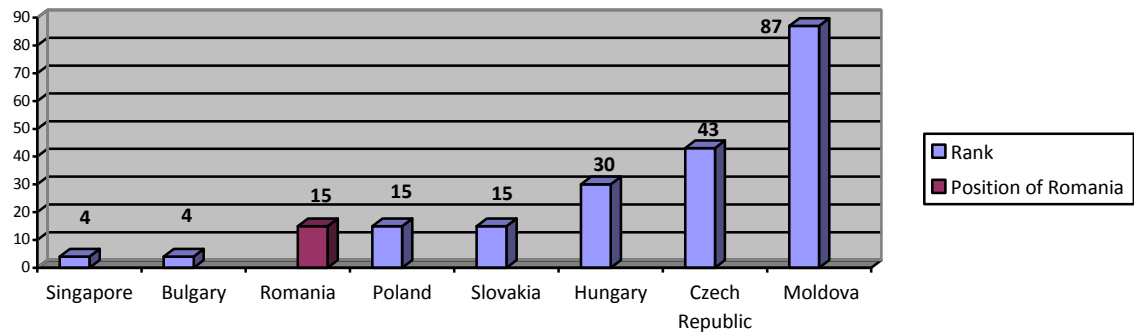


Figure 5 - **Romania's position in the neighborhood and according to the indicator tables "Conditions for getting a new hire labor"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

**Place 115 for the indicator "Access to credit"**

This vantage point places Romania in the world rankings in a tie with Poland and Slovakia, but also far ahead of other countries in the region and Moldova (position 87), Czech Republic (item 43), Hungary (position 30). With regard to Romania, this place 15 is derived from a score of 8 points in the enforcement of legal rights index strength (1-10), five reference points in depth information on the credit index (0-6) and viewed coverage offered through the Public Register which comprises 5.7% of the adult population of the country.

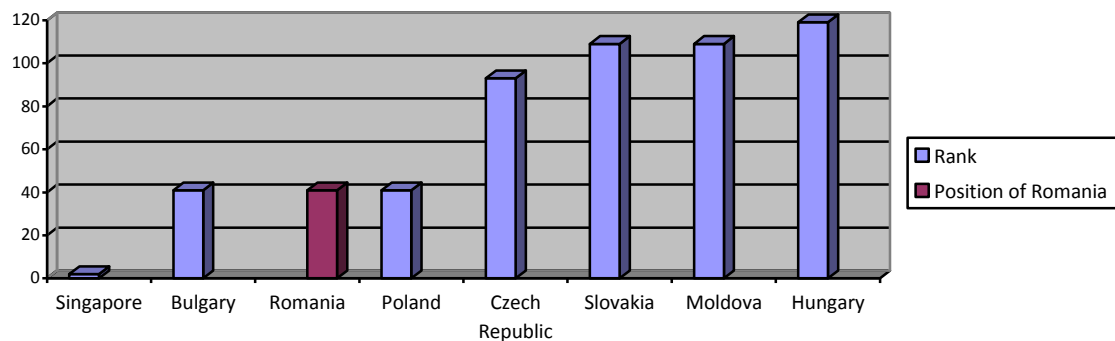


**Figure 6 - Romania's position in the rankings and neighborhoods depending on the indicator "Access to credit"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

**Place 41 for the indicator "Protecting investors"**

Romania was assigned an index based on the 41st of September on the coverage of public information (index methodology evolved from 0-10), an index of 4 on a scale of 10 units which assesses the ease of identifying ownership and not least for a score of 6 points out of 10, for the strength of investor protection.



**Figure 7 - Romania's position in the rankings and neighborhoods depending on the indicator "investor protection"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

This place positioned Romania at the same level with Poland, Bulgaria and before Hungary (position 119), Moldova (position 109), Slovakia (position 109) and Czech Republic (position 119).

**Place 46 for the indicator "External trade"**

With a slight deterioration in the position in the rankings this place as a result of a number of documents required five operations and a number of six export import documents, requiring about

12 days in duration to ensure compliance to export and 13 days for import operations, which require cost U.S. \$ 1.275 per container for export and U.S. \$ 1.175 per container import.

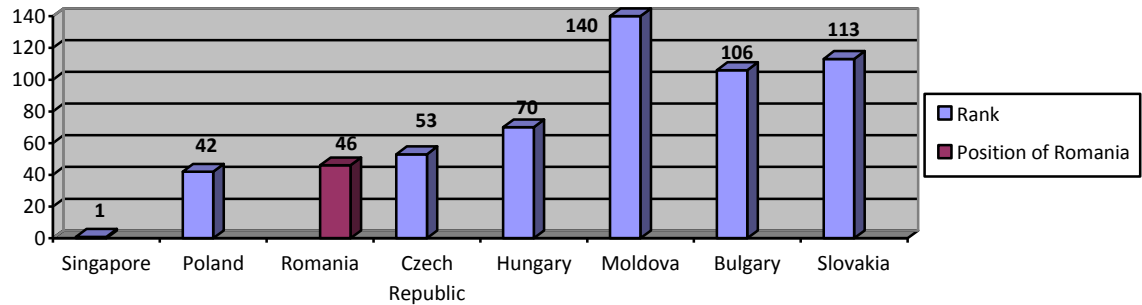


Figure 8 - **Romania's position in the rankings and neighborhoods depending on the indicator "foreign commerce"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

It can be seen from the above figure, however, that Romania's position is well ahead of other countries in the region and Moldova (position 140), Slovakia (position 113), Bulgaria (position 106), Hungary (position 70) and Czech Republic (item 53).

**Place 91 for the indicator "Closing a business"**

Procedures for an average within 3.3 years and requires a cost amounting to 11% of the property. This indicator positioned Romania behind many countries in the region such as Slovakia (position 39), Hungary (position 58), Bulgaria (position 78), Poland (position 85) and Moldova (position 90), yet in the Czech Republic which had position 116 in rankings conducted by the Doing Business Report.

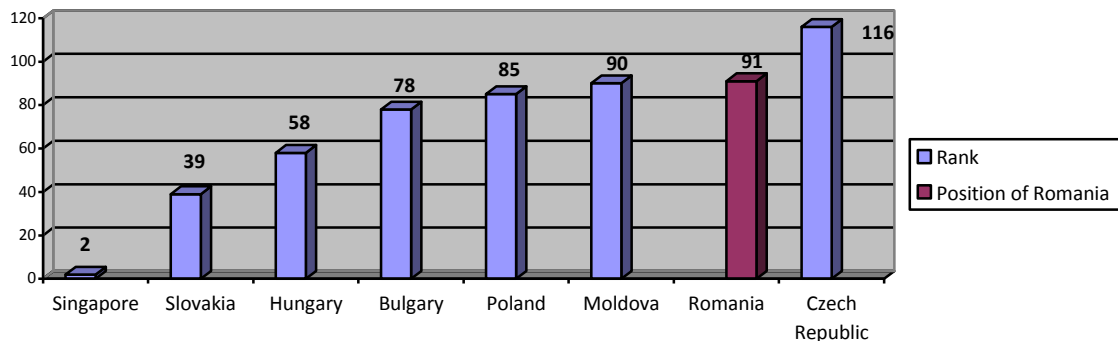


Figure 9 - **Romania's position in the rankings and neighborhoods depending on the indicator "Closing a business"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

**Place 91 for the indicator "Obtaining building permits"**

The process requires going through 17 procedures that require a period of 243 days and whose cost amounts to 87.9% of income per capita, a significant downward trend compared to 2007.

This place, respectively 91, positioned Romania before Poland (position 146), Moldova (position 161) and Bulgaria (position 119), but behind Hungary (position 88), Czech Republic (item 76) and Slovakia (item 56).

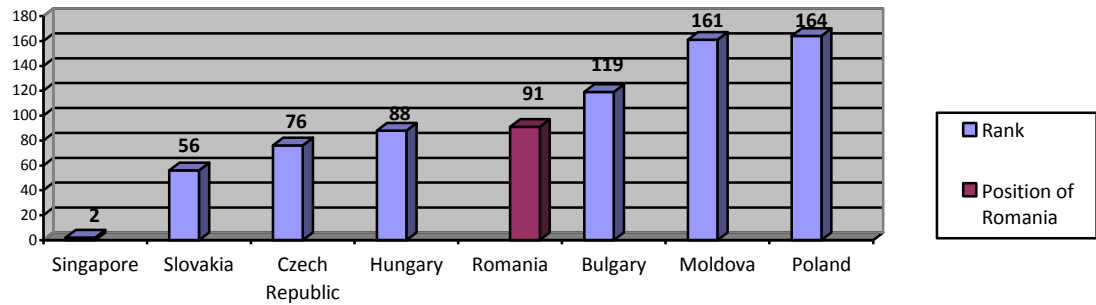


Figure 10 - **Romania's position in the neighborhood and according to the indicator tables "Obtaining building permits"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

**Place 42 for the indicator "Opening a business"**

In Romania, a business establishment is based on six procedures, lasts an average of 10 days is 2.9% of average income per capita and the share of the costs of making the business relative to the minimum starting capital, amounting to 0.9 % of average income per capita (past issues recorded a slight decrease in the last two years). From the perspective of this index, Romania is placed before Poland (position 117), the Czech Republic (position 113), Moldova (position 77), Slovakia (position 66) and Bulgaria (50), but behind Hungary (position 39).

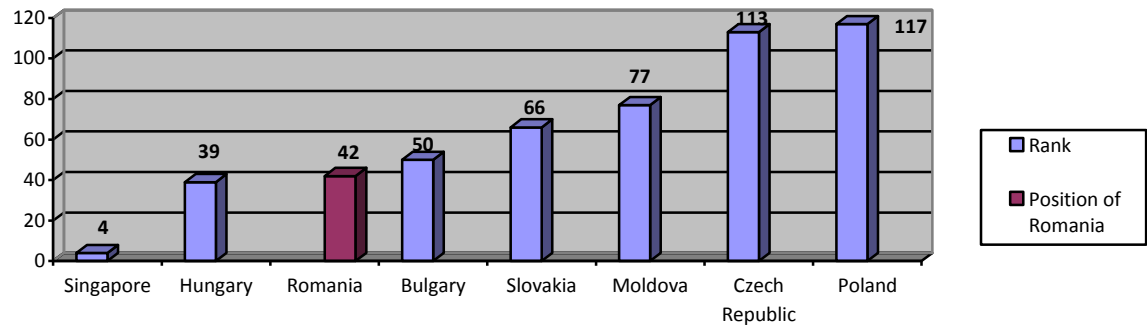


Figure 11 - **Romania's position in the rankings and neighborhoods depending on the indicator "Opening a business"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>

**Place 55 for the indicator "Enforcement"**

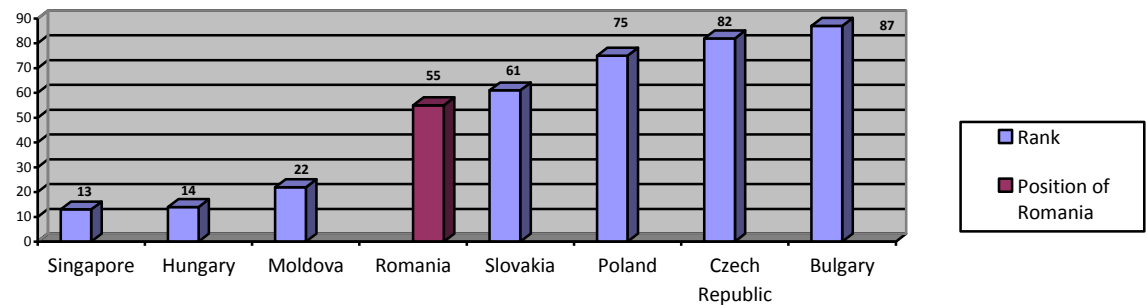


Figure 12 - **Romania's position in the rankings and neighborhoods depending on the indicator "Enforcement"**

Source: Doing Business Report 2010, World Bank, <http://www.doingbusiness.org/reports>



According to research conducted, Romania included a number of 31 procedures to be followed, a period of 512 days for their completion and a cost that rises to 28.9% of the amount claimed.

This position places Romania long before Bulgaria (position 87), Czech (position 82), Poland (position 75) and Slovakia (position 61), but far behind Hungary (item 14) and Moldova (position 22).

## 5. Conclusions

Romania's economy was heavily affected by global economic crisis.

The global economic crisis had the following consequences for SMEs in Romania [2]:

⇒ 133,000 SMEs have suspended business activities, which represents an increase over 2007 by 11 times;

⇒ 43 600 firms were deleted from the Register of Commerce, which represents an increase of more than 2.3 times the number recorded in 2007;

⇒ process of setting up new SMEs has slowed, however a number of 116,000 to set up new businesses;

⇒ main exit from the market as was the suspension of activity, number of firms suspended Oti was 3 higher compared to the number of removals;

⇒ most affected sectors were intermediere estate services, construction, industry and administration and support services, wholesale and retail trade;

⇒ most new legal entities were created within the scope of business activities, scientific and technical.

According to the Doing Business Report 2010, Romania is in 2009, where 55 out of 183 countries assessed, the fund recorded a deterioration of the global crisis of the place formerly held 10 positions.

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