

# ASSESSMENT OF THE BUSINESS ENVIRONMENT IN ROMANIA AND THE SME SECTOR IN THE 2012-2013 PERIOD

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## **Abstract**

*Small and medium enterprises play a vital role in the development of any economy and generate a part of GDP, both in the trade and in the industry or services. SMEs are characterized by dynamism, flexibility and innovation. They are able to adapt the changes that occur in the economy, to refer the matter quickly of the market trends and to be promoters of the change. Through this article I want to make realistic and meaningful analysis of the business environment in Romania based on its features and continuing with the analysis of the SME sector in 2012-2013.*

**Keywords:** *Features of the business environment, evaluation of the business, the SME sector, entrepreneurship*

**JEL Classification:** L<sub>26</sub>, M<sub>1</sub>

## **Introduction**

Entrepreneurship is the surest way to prosper in an uncertain world, constantly changing. William Hesketh Lever, founder of Lever Brothers (Unilever) believed that “managing a successful business is the principle of doing things in a very simple manner, constantly”.

Most entrepreneurs who have achieved the success in business continuously applied simple principles, since awareness of the work mission they accomplish, continuing with and integrated vision with on the product and customer and the accentuated sense of innovation and confident behaviour.

The importance of this issue consists in the association between entrepreneurship and the economic performance of a country as it is shown by Baumol (1990, p 894) who believes that "entrepreneurship is always present in any economy and play an important role in its expansion."

However many Romanian watch with fear a business starting up because a financial failure, as shown in the GEM Report 2012<sup>1</sup> and additional of some

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<sup>1</sup> According to the report, the criterion of “fear of starting up a business”, a percentage of 24.7% of the respondents answered yes, which places Romania in 5th place in the ranking, alongside the countries such as Greece, Hungary, Slovakia and Croatia.

features of the business environment in our country, such as the existence of the incoherent and ambiguous legal framework, lack of entrepreneurial education, taxes too high and unstable economic environment.

Through this article we have tried to answer some questions such as: "Can entrepreneurship education to help the business developing in Romania?", "What were principal risks and opportunities faced by businesses in the period 2012-2013?", "What are the priorities for the Romanian business in 2013?".

The relationship between the article and the literature consists in the forefront bringing of the business features in Romania and analysis of quantitative indicators included in the Doing Business Report 2013.

### **Literature review**

In our scientific approach we based on the existing specialized studies as Doing Business Report 2013, SME White Paper 2011 and SME White Paper 2012, The Global Entrepreneurship Monitor 2012 and Economics books "Entrepreneurship. The road from the idea to opportunities and success in business" author Marius Ghenea and "How to become an entrepreneur. Develop your own business!" written by Larry C. Farrell. To present the positive role of entrepreneurship on the economic activity I referred to Baumol (1999) and Schumpeter (1912). The economic growth and wealth of a country depends on the competitiveness of its companies, and this is based on the ability of the entrepreneurs and managers to lead those (Cuervo et al., 2008).

Entrepreneurship is one of the most rapidly evolving in economics, management, finance and law (Baron and Henry, 2010).

There is a twice larger probability as a graduate of faculty to start his own business than an MBA graduate from Wharton (Professor Ian MacMillan, Wharton Business School, University of Pennsylvania, 2004)

40 years ago, Baumol said that "trying to understand the entrepreneurship without an entrepreneur, is just like trying to understand Shakespeare without Hamlet".

### **1. Particulars of the business environment in Romania**

Current business environment in Romania has a number of features that have influenced the SME sector evolution in 2012-2013 and that are presented below:

1. Existence of an incoherent and deeply ambiguous legal framework, which discourages initiative and the entrepreneurial spirit;
2. Lack of industries producing goods and competitive services to the European quality standards;
3. Lack of the business originality ideas. In this respect, it is hoped, may still way too much, on the business ideas copied from "outside" and on the "big shot";
4. Poor entrepreneurship education in schools, as evidenced by inconsistency of the formative methods, the regression constructive attitudes about work and also by the fact that often many people waiting, still, help came from the Romanian state, and newer, from the EU bodies;

5. In the close correlation with point 4, we see the decreasing of interest in the results of their work, while increasing the incompetence and superficiality in the most areas of activity;

6. Lack of mentality to create and develop the business partnerships of “Winner – Winner”. In this context, we point out, again, the great danger they submit “entrepreneurs” aimed exclusively the short-term partnerships and (maximum) medium;

7. Orientation (educating) of the people for consumption and not for production. From this point of view, we have already become disciplined consumers and "good" and still have a huge exploitable potential, which is conferred by more than 22.3 million inhabitants (the national territory, only approx. 18 million) representing 4.49% of the EU population. Not to mention the fact that the national currency depreciated (was deprecated) over 1000 times over ten years;

8. Political priority to the detriment of the economic and social. In this context we emphasize that, until we shall “realize” that not politics should dominate the economics, but conversely, we have no chance of progress. Moreover, because of the many and the crucial interference of the politics in economic we face the extremely dangerous phenomena, including widespread corruption and the political clientism, which is carefully and skilfully “supported” and/or “masked” by the existing legislative framework ;

9. Delay of the reform and restructuring of the real macroeconomic, as well as the political situation more and more confusing led to loss of confidence and damage the country's image abroad, they manifested through continuous decline of the country rating, periodically published by the large international assessment agencies.

## **2. Assessing of the business environment in Romania in 2011-2012**

According to the Doing Business Report 2013, Romania, in 2012, is ranked 72 of the 185 participating economies to analyse the quantitative indicators included in the annual report, at the criterion “ease to start a business” compared with 2011 when it ranked 65. Thus, countries such as Bulgaria, Turkey, Czech Republic, Hungary, Cyprus, Poland, Spain is at the higher criterion than our country and Germany ranks first with a rate of 20% as can be seen from the graph 1.

Between the years 2012-2013 the main risks and opportunities faced by businesses in Romania are found in the study “Turn Risks and Opportunities into Results”, performed by Ernst & Young.

*The risk category included:*

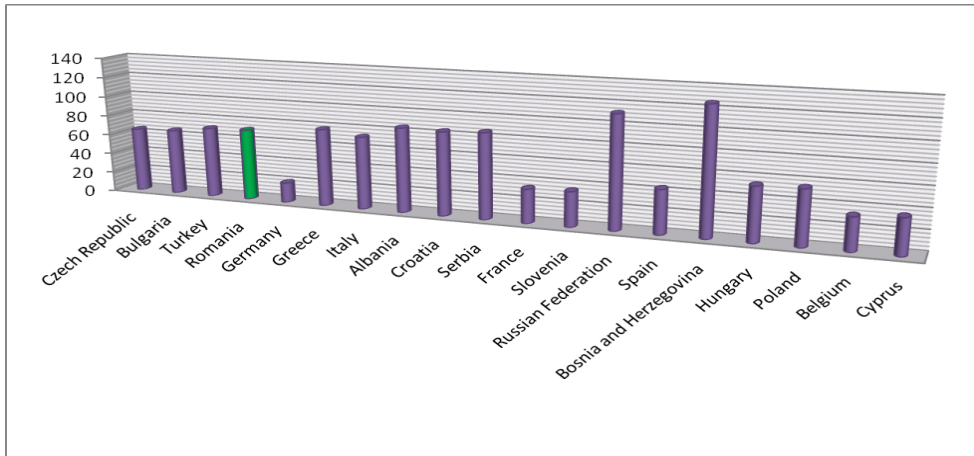
– pressure on the falling prices as a result of the lower incomes, rising unemployment and uncertainty in the economic environment;

– the market risk has increased due to the volatility of the financial and commodity markets, including oil prices due to unrest in the Middle East;

intensification the undermining risk of the company performance as a result of cost cutting measures taken without a sufficient quantify of the degree to which

such decisions affect companies' ability to compete and the ability to react to the potential opportunities.

Chart. 1. Criterion "ease to start a business" in some countries in Eastern Europe



Source: Own processing of the data extracted from the Doing Business Report 2013

Among opportunities identified by the respondents of the study performed by Ernst & Young include: innovation, investment in processes and tools to increase the productivity, improve the implementation of business strategies and investment in the green technology.

Conclusions of the first edition of the *Barometer perception on the Romanian business environment – Entrepreneurs speak*, released by Ernst & Young, the first at Romanian Business Leaders Summit from June 1 to August 15, 2012 shows that Romanian entrepreneurs lack relevant information about funding sources, organizations that support the entrepreneurship and the education programs designed for them.

GEM Reports demonstrate that institutional typology, demographics, entrepreneurial culture and economic wellbeing emerging entrepreneurial characteristics of a country (Bosma et al, 2010).

Schumpeter in *“Theorie der wirtschaftlichen Entwicklung: eine Untersuchung über Unternehmengewinn”* shows that entrepreneurs by introducing the new products, production processes and organizational structures causing the future economic conditions and affect the present.

According to GEM Report 2012, perception and entrepreneurial attitude in some European Union countries were:

GEM Report 2012 on entrepreneurial perceptions and attitudes

	Observed Opportunities	Perceived skills	Fear of making mistakes	Entrepreneurial intentions	How good is the image that enjoyed the successful entrepreneurs	Entrepreneurship a good career opportunity	Promoting entrepreneurship in the media
Austria	49	50	36	9	46	76	
Belgium	33	37	41	9	62	57	54
Denmark	44	31	39	7	-	-	-
Estonia	45	43	34	16	55	63	41
Finland	55	34	37	8	45	83	68
France	38	36	43	17	65	77	41
Germany	36	37	42	6	49	76	49
Greece	13	50	61	10	64	68	33
Hungary	11	40	34	13	41	74	29
Ireland	26	45	35	5	45	81	61
Italy	20	30	58	11	67	70	51
Latvia	33	44	37	22	60	53	53
Lithuania	30	40	36	18	63	53	37
Netherlands	34	42	30	9	79	65	58
Poland	20	54	43	22	68	57	56
Portugal	16	47	42	14	-	-	-
Romania	37	38	41	27	71	74	55
Slovakia	18	50	38	12	50	74	59
Slovenia	20	51	27	13	53	71	51
Spain	14	50	42	11	64	64	47
Sweden	66	37	33	11	-	-	-
Great Britain	33	47	36	10	50	77	47

Source: <http://www.gemconsortium.org/docs/download/2645> pdf. p. 27

The first step in starting a business is to identify the business opportunities and as seen in Table. 1 the Nordic countries (Finland, Sweden, Estonia) have the highest perceptions regarding the criterion “*observed opportunities*”.

The Southern European countries, such as Greece, Hungary, Italy, Portugal and Spain rank low criterion “*observed opportunities*” although their opinion on the criterion of “*perceived ability*” is high.

At the criterion “*entrepreneurial intentions*”, the lowest level lies in 2012 countries such as Ireland, Germany, Denmark, Finland and Romania ranks first among European countries, with 27 points.

The GEM Report 2012 shows that in all geographic regions studied, those aged between 25 and 34 years have the most entrepreneurial initiatives.

The highest score on the indicator “*entrepreneurship - good career opportunity*” was obtained by Ireland (81 points), followed by Britain, France (77 points), Austria and Germany (76 points). Romania scored 74 points, on a par with Hungary and Slovakia.

The indicator “*fear of making mistakes*” Greece ranks highest with 61 points while the opposite is Slovenia with 27 points.

About the “*promoting entrepreneurship in the media*” the highest scores were obtained by Finland, Ireland, and Slovenia, and “*entrepreneurs who have an image of success*” are the highest points in Ireland, Germany and France.

In this survey in 2012, conducted by the Global Entrepreneurship Monitor took part over 198,000 entrepreneurs in 69 sectors of the economy.

Marius Ghenea, a serial and business entrepreneur and president of the Romanian online stores, in his book “Entrepreneurship. The way from the idea to the opportunity and success in business”, believes that *the weaknesses of the Romanian entrepreneurs are:*

- excess of imagination, because the creativity unsupported by a feasible plan work against the businessmen, as many ideas that sound good at first become to be impossible to implement in a profitable business;

- inability to make decisions quickly: the most Romanian entrepreneurs will always take the “best decision”, which often delays the decision-making in their organizations so that a less decision taken immediately is better than a good decision taken later (often too late);

- lack of training in the business financial planning: a large part of Romanian entrepreneurs are based exclusively on their entrepreneurial intuition in planning the company's cash flow and other financial planning indispensable for the harmonious development of the business;

- insufficient delegation of the company responsibilities to the team: the Romanian entrepreneurs, even more than in other countries, try to keep everything under the control because the prudential reasons related to the trust in the employees, or the syndrome “I know best”, even in the areas where they are not necessarily trained, which attracts entrepreneurs in the irrelevant activities for the firm, but require extensive resources of time, which they do not have, getting to work 24/7, leading to exhaustion, bad decisions, misallocations of priorities and, finally, harmful to the whole affair.

To overcome these disadvantages, the education in the Romanian schools should be oriented towards the creativity and personal development, communication, financial and strategic planning etc. In this regard, Steve Jobs said “to lead is an easy part - to develop yourself is difficult, and, for that, you need to know how to produce great products and how to provide great services”.

Most of the world's top entrepreneurs, like Steve Jobs, Walt Disney, Soichiro Honda, Sam Walton, Richard Branson have an extremely common thing about the knowledge: all were able to get very good at something. They understood that to build a company to grow quickly do not need to be a very good manager, but to be very good at producing and doing something that many people in the world need and who will pay a lot of money.

Daniel Tigănilă, the Startups.ro cofounder, believes that “the mistakes and failures are blamed and seen as a sign of incompetence. When, in fact, the effort should be appreciated. In the entrepreneurship, mistakes and failures are in fact the

expression of initiative and the repeated attempts, which over the time can become a success”.

In this sense, the necessary knowledge for education of a successful entrepreneur should include:

- knowledge of evaluating a business (such as the discipline Company evaluation);
- strategic knowledge (such as Strategic Management);
- knowledge of career assessment;
- knowledge of environmental assessment;
- knowledge of ethical assessment;
- knowledge of business negotiation;
- knowledge of production (Operational management).

Currently, Romania needs to develop a new generation of the entrepreneurs with characteristic skills like responsibility, spontaneity, adaptability, foresight, initiative and managerial spirit, enabling them to identify and implement the appropriate strategies to penetrate and maintain on the market. These personal skills must be cultivated from primary school and developed to higher level in the high schools and universities.

In the table below, I presented the *entrepreneurship stage in the Romania education*:

Table 2

**Entrepreneurship stage in the Romania education**

Education level	Subject	No. hours/week
grades I-IV	Counseling and orientation	0-1 hour/week
grades V-VIII	Technological Education - common body	1 hour/week
9 <sup>th</sup> grade	Civics/entrepreneurial culture	1 hour/week
10 <sup>th</sup> grade	Entrepreneurship education	1 hour/week
grades IX and X in arts and crafts	Civics/entrepreneurial culture	1 hour/week -the 9 <sup>th</sup> grade all areas - the 10 <sup>th</sup> grade the economic field
grade XI for the completion year	Applied Economics and Entrepreneurship Education	Applied Economics -2 hours/week for the Commerce, Tourism and Nutrition fields; Entrepreneurship Education - 1 hour/week for all fields
the 12 <sup>th</sup> grade, the common body, the technological pathway, all specialties	Entrepreneurship Education	1 hour/week

Source: <http://www.minind.ro/Strategia> Guvernamentală pentru dezvoltarea sectorului IMM pdf. p.31

As regards the university education, it is noted the various initiatives of some universities in Romania, especially technical ones, to create partnerships, to develop and implement the programs and the projects for developing the spiritual

entrepreneurial education. The current economic situation, in concordance with the gained experience, certifies the need to extend these initiatives in all the university centres, and to include the entrepreneurship education as a compulsory subject (or at least the optional subject) in the university curricula.

In 2012, a market survey conducted by the Post-Privatisation Foundation, during October-November, at the national level, under its Business Mentoring Program has revealed that the attitude of entrepreneurs towards the educational programs is mainly positive, a total of 27% of managers are interested in following training courses regardless of resources, 29% of the respondents would follow such courses only if it does not require much time and 8% of respondents were showed complete disinterest in the entrepreneurship education programs.

The changing economic environment, many challenges in the context of globalization, will inevitably lead to the new market developments, implementation of some adequate measures to stimulate the entrepreneurship education system, representing a need for SMEs development.

### **3. Priorities for the business environment in 2013**

In 2013, members of the National Council of Private Small and Medium Enterprises in Romania (CNIPMMR) believe that should be considered some priorities for the business environment, such as:

- ensuring a stable and predictable legal framework for business to improve the bureaucracy and reducing the taxation issues;

- a new law for SMEs to ensure a full implementation at the national level of the Small Business Act (SBA), applying the principle of “first regulated for SMEs” and gradual increase from 0.4% to 1% of GDP of the funds allocated from the state budget to the finance development programs, of the support measures to start up new enterprises and supporting the development of the small and medium-sized enterprises at the national and local level for the period 2013-2020;

- increasing the amounts allocated to the establishment and development of SMEs, compared to the multiplier effect recorded in 2012, with the priority allocation of 300 million euro for the financial support of the start-up program during 2013-2014, which will ensure the creation of 300,000 new jobs and growth with 4.26% of GDP in the period 2013-2016;

- improving the legal framework concerning the state aid schemes with changing the criteria for granting, to make them accessible to the SMEs;

- incentives measures for SMEs such as: gradual taxation of the start-up SMEs, tax exemption in the first year and 50% reduction in income tax for the second year running, with the obligation to ensure the functioning of society for a period of at least three years after the completion of the facilities;

- improving access for SMEs to the finance by simplifying the procedures for increasing the absorption of the structural funds, improving regulations on the exemption of the reinvested profits, increase the SME access to the public procurement, support the development CEC as a bank to finance SMEs and microfinance programs for microenterprises;



– improving the legislation relating the public-private partnership to reduce the limits set by the law disposals to make them operational for entrepreneurs in Romania, including SMEs;

– improving the enforcement regulations for budgetary flows, with the release of SME bank accounts and creating a rescheduling amount by withholding up to 30% of monthly income without affecting the salaries and current activity.

## Conclusions

Between the years 2012-2013 business environment faced some risks but CNIPMMR members are considering a number of priorities for 2013, to support the development of SME sector in Romania.

Looking around us, at least 70% of us think to become entrepreneurs, considering that to survive in an uncertain economy, we can put our knowledge into the value, our work and the own entrepreneurial spirit.

However, the Romanian entrepreneurs lack relevant information about the sources of funding organizations that support the entrepreneurship and education programs designed for them.

The entrepreneurial education should start at the lowest possible age, focusing on the knowledge about the financial planning, teamwork, ability to make gains from own activities, etc. Through a proper education, the entrepreneurial skills can be developed through two ways: by the theoretical education in order to assimilate the specialized knowledge in economic and through the practical education (practical applications of simulation to set up a company or a special physical education, called team-building).

A good entrepreneur is one who identifies opportunities even where others see only problems and have qualities such as: entrepreneurial flair, positive thinking and passion for own business, responsibility, perseverance, and creativity. Accumulation of knowledge and skills unfold as any valuable business building with effort and patience.

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