

# PERCEPTIONS OF ENTREPRENEURS REGARDING ROMANIAN BUSINESS ENVIRONMENT IN 2010

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## ABSTRACT

*Business environment influence SMEs activities on multiple levels, so entrepreneurs are constantly accommodating to it, which ensures their economic survival. In the same time, majority of entrepreneurs modeling the business environment, most often based on the principle of learning by doing or action learning. Although they are in an interdependent relationship, business environment impacting to a greater extend entrepreneurs. This paper will present - based on a complex research made in 2010 - few important aspects referring entrepreneurs perception on the Romanian business environment.*

**KEYWORDS:** *business environment, entrepreneurs, SMEs, business opportunities, contextual evolutions, SMEs difficulties, crisis, recommendations of entrepreneurs*

Business environment has a major influence, frequently determinant over entrepreneurs. Amplifying knowledge about this environment facilitates fighting back on negative elements and influences by entrepreneurs, in the same time with noticing and capitalization of positive contextual components and impacts. Therefore, it is very useful to highlight Romanian entrepreneur's opinions about the business environment in 2010. In the following it will be presented the results of a complex survey made on SMEs sector in the spring of 2010. The survey conducted on a sample of 1485 SMEs – micro, small and medium sized – from all fields of activity, age categories and development regions, the sample being considered representative for SMEs sector situation in Romania.

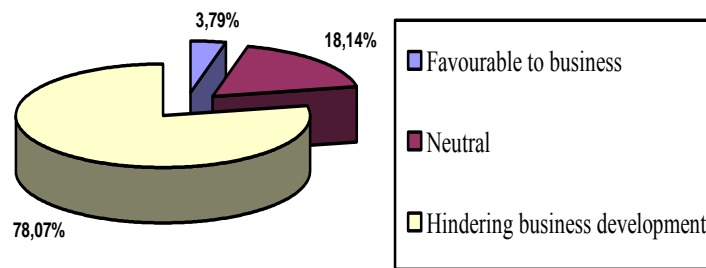
## 1. Entrepreneurs appreciations concerning overall evolution of the business environment in Romania

**Business environment evolution in year 2010** (figure 1) has been appreciated as being **hindering development by 78,07% of the companies, neutral by 18,14% of the SMEs and favorable to business by 3,79% of the companies**. If we compare these perceptions with ones from previous years (for example the environment was appreciated as being favorable to business in 2009 and 2008 by 17,13% and 51,61% of the companies respectively) it can be noted that more and more SME entrepreneurs/managers are unsatisfied by the

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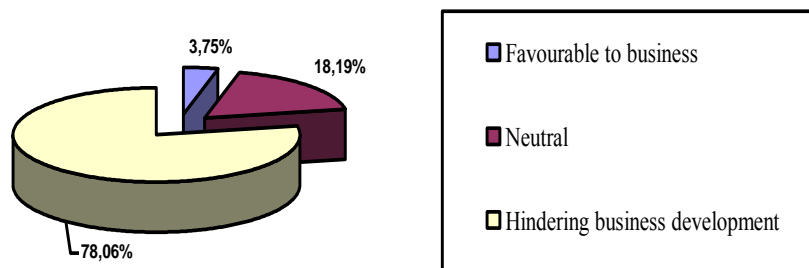
environment inside which they run their business, situation due to internal and international economic crisis that started at the end of 2008.



**Figure 1** Entrepreneurs' estimation of economic environment evolution during year 2010

Concerning the **business environment in 2011**, we observe approximately the same appraisals as in 2010 (figure 2), which reflects entrepreneurs disbelief in a redressing/ positive economic evolution on short and medium term.

Majority of specialists opine that ground modification of present environment, in order to be perceived as being mostly favorable, is a very complex process, determined by multiple causes, which cannot be accomplished during one or two years only.

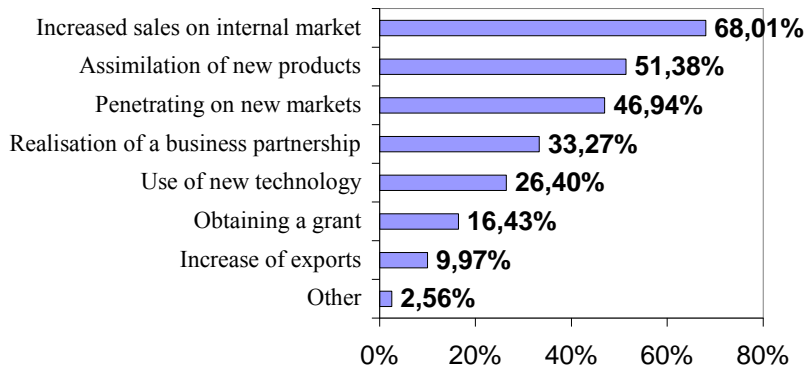


**Figure 2** Entrepreneurs' estimation of economic environment evolution in 2011

## 2. Business opportunities

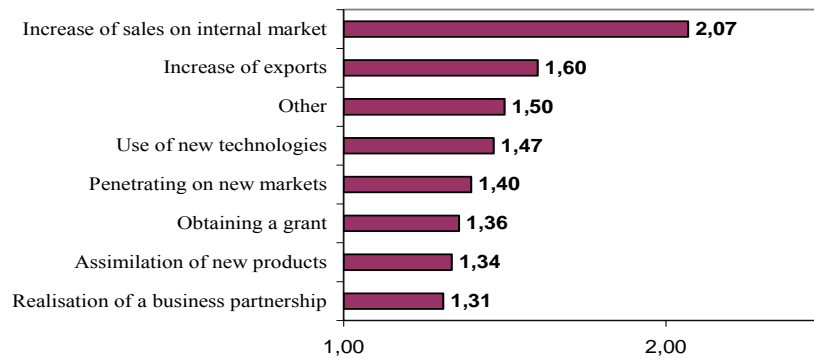
In most of the small and medium sized enterprises which were the object of the survey (68,01%) was considered **that one of the main business opportunities for 2010 is the increase of sales on internal market**, pointing out that, in spite of actual economic crisis entrepreneurs still count on population's and internal economic agents' purchase power. The other important opportunities highlighted are: **assimilation of new products** (indicated in 51,38% of the SMEs), **penetrating new markets** (46,94%), **realisation of a business partnership** (33,27%), **using new technologies** (26,40%), **obtaining a grant** (16,43%) and

**increase of exports (9,97%).** It must be noted that in 2,56% of the SMEs other sources of economic opportunities are identified for the current year, among which are, for example: auction's correctness and transparency, subcontracting activities in the framework of projects financed by EU, opening new locations/commercial space, assignation of some commissions for receiving orders for executing works, offering spaces for rent, reorganising/closing some activities, attracting new clients, obtaining some spaces and machinery by renting them, boosting crediting, realisation of some investments for modernisation, etc. See figure 3.



**Figure 3 Frequency of business opportunities accessible to SMEs in Romania**

If we take into account these business opportunities' intensity of manifestation (on a scale from 1 to 3), on the first place is increasing sales on internal market with an average of 2,07, followed by increase of exports (1,60), other entrepreneurial opportunities (1,50), use of new technologies (1,47), penetrating on new markets (1,40), obtaining a grant (1,36), assimilation of new products (1,34), and realisation of a business partnership (1,31). The complete picture of the intensity of manifestation of business opportunities encountered by Romanian entrepreneurs during this year is graphically represented in figure 4.



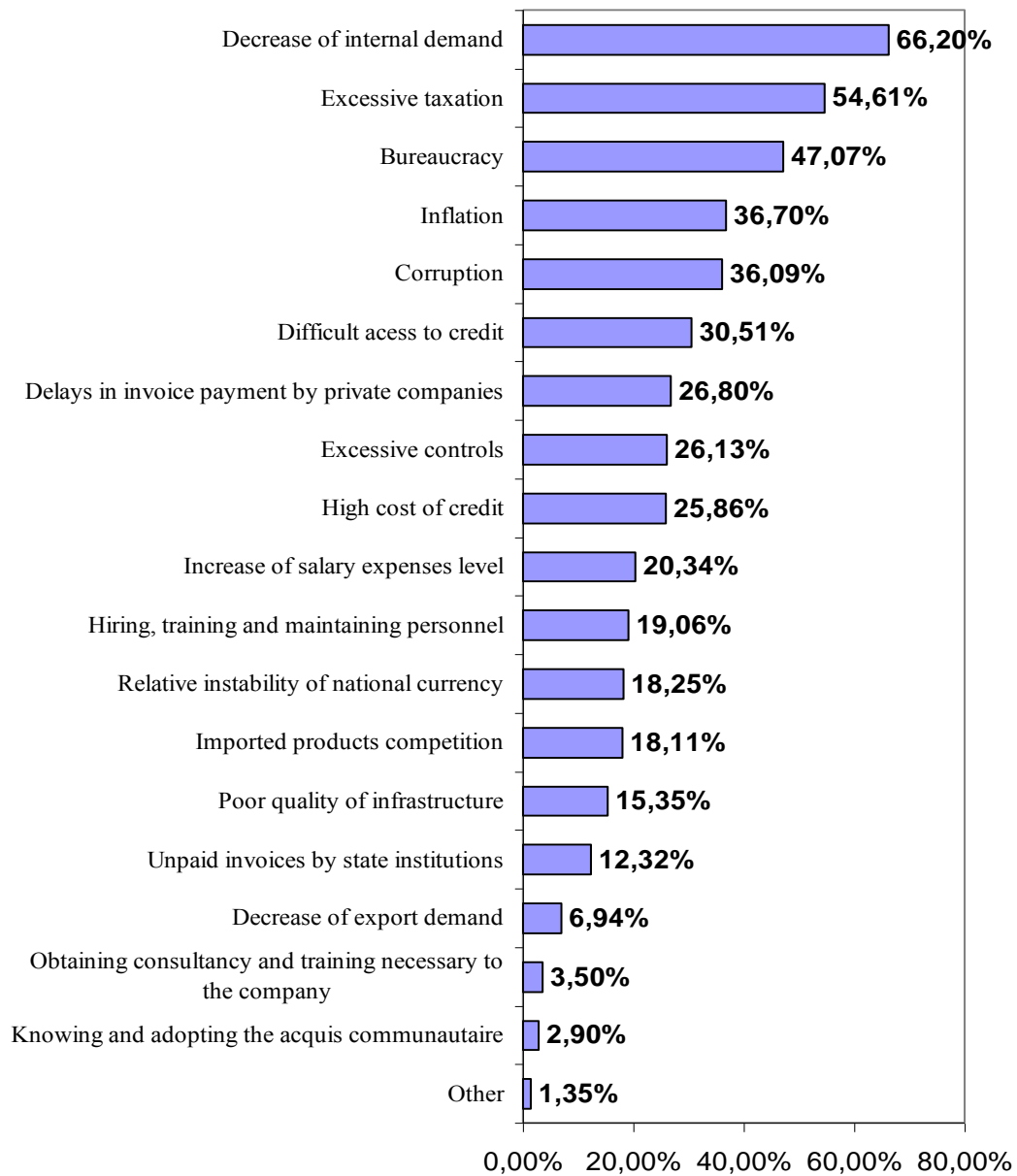
**Figure 4 Intensity of business opportunities manifestation**

We can conclude that vigorous macroeconomic policies are necessary, concretized in fast decisions and actions, which take into account increase of stated opportunities and generation of new ones, in consensus with approaches practiced in most European Union countries.

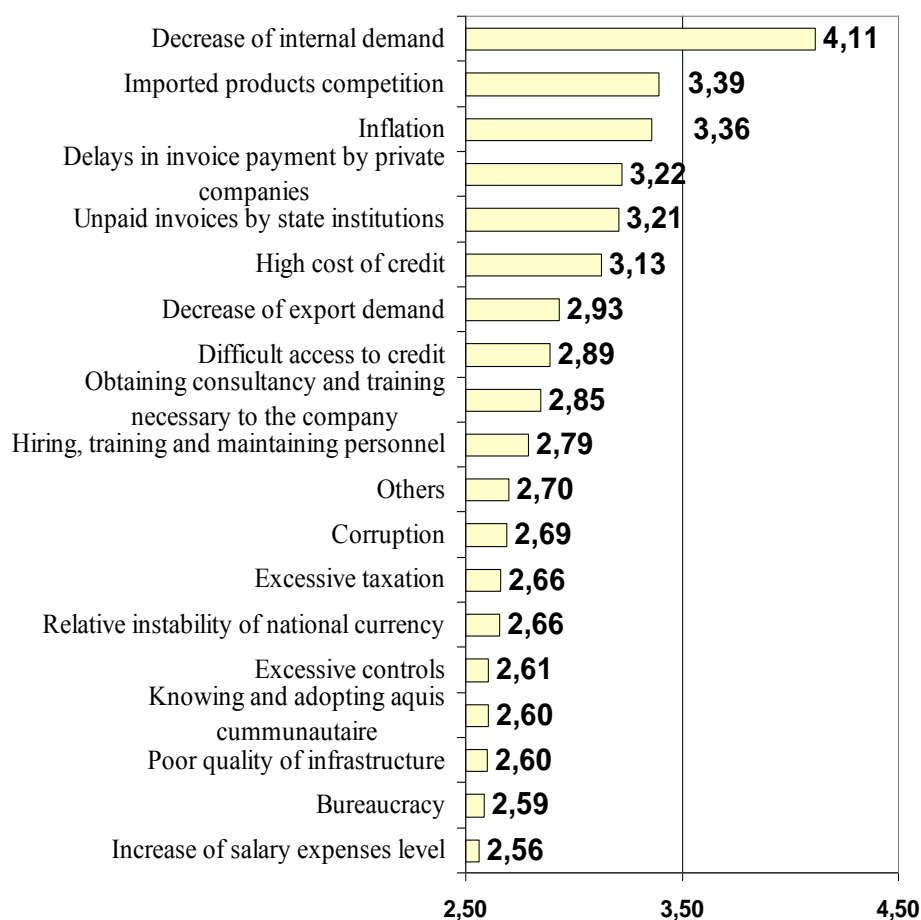
### 3. Difficulties in SMEs' activity

Surveyed entrepreneurs/managers indicated that in actual period they are facing the following difficulties: **decrease of internal demand** (signalised in 66,20% of the SMEs), **excessive taxation** (54,61%), **bureaucracy** (47,07%), **inflation** (36,70%), **corruption** (36,09%), **difficult access to credits** (30,51%), **delays in invoice payment from private companies** (26,80%), **excessive controls** (26,13%), **high cost of credit** (25,86%), **increase of salary expenses level** (20,34%), **hiring, training and maintaining personnel** (19,06%), **relative instability of national currency** (18,25%), **imported products competition** (18,11%), **poor quality of infrastructure** (15,35%), **unpaid invoices by state institutions** (12,32%), **decrease of export demand** (6,94%), **obtaining consultancy and training necessary to the company** (3,50%), **knowing and adopting the *acquis communautaire*** (2,90%). In 1,35% of the small and medium sized companies have been identified **other difficulties** like unfair competition, difficult access to concrete information concerning accessing structural funds, population's living conditions decrease, high cost of materials and equipment, legal instability, lack of liquidities, delays in VAT reimbursement, etc. It can be observed that decrease of internal demand is by far the most frequent difficulty, indicated by approximately  $\frac{2}{3}$  of economic agents, followed by a substantial group, composed of four difficulties, all with high frequency, signaled by more than one third of the respondents. All of these four difficulties - **excessive taxation, bureaucracy, inflation and corruption** - depend in the first place on Romanian state. Complete picture of the difficulties faced by SMEs in year 2009 is represented graphically in figure 5.

Regarding the **difficulties' intensity of manifestation** it can be noted that on a scale from 1 to 5, on the first place is **decrease of internal demand** with an average of 4,11, followed by **imported products competition** (3,39), **inflation** (3,36), **delays in invoice payment by private companies** (3,22), **unpaid invoices by state institutions** (3,21), **high cost of credit** (3,13), **decrease of export demand** (2,93), difficult access to credit (2,89), obtaining consultancy and training necessary to the company (2,85), hiring, training and maintaining personnel (2,79), other difficulties (2,70), corruption (2,69), excessive taxation (2,66), relative instability of national currency (2,66), excessive controls (2,61), knowing and adopting the *acquis communautaire* (2,60), poor quality of infrastructure (2,60), bureaucracy (2,59), increase of salary expenses level (2,56). See figure 6.



**Figure 5 Frequency of major difficulties faced by SMEs**



**Figure 6 Intensity of manifestation of difficulties faced by SMEs**

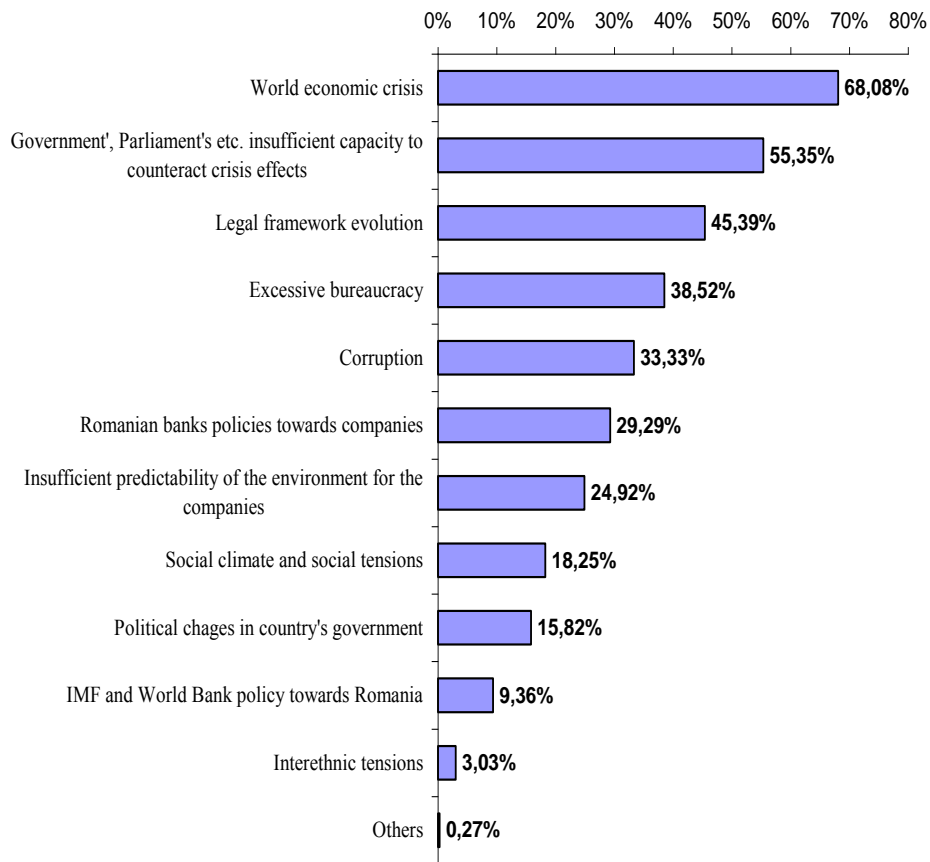
It must be highlighted that difficulties are more numerous, frequent and intense than opportunities. For example, decrease of demand, placed on the first place in difficulties, has - on a scale from 1 to 5 - intensity of 4,11, compared to increase of sales on internal market mentioned in opportunities, which, on a scale from 1 to 3 has the index of 2,07.

Main difficulties faced by economic agents from Romania must be diminished or, if possible, eliminated through decisions and actions focused on causes which generate them.

#### **4. Main contextual evolutions with negative influence on SMEs' activity**

From among the contextual evolutions which are considered to negatively influence SMEs activity and performance this year, most frequently signalised were **world economic crisis (in 68,08% of all surveyed companies), Government's, Parliament's etc. insufficient capacity to counteract crisis**

effects (55,35%), legal framework evolution (45,39%), excessive bureaucracy (38,52%) and corruption (33,33%). This situation is explained by unpredictable economic evolutions generated by the international crisis, not adopting a coherent anti-crisis programme, legal instability/incoherence, corroborated with existence in a small degree of a legal framework which stimulates for real and substantially SMEs' activities, proliferation of bureaucracy and particular intensity of the corruption phenomenon in Romania. These are followed by **Romanian banks' policies towards companies (29,29%), insufficient predictability of the environment for enterprises (24,92%), social climate and social tensions (18,25%), political changes in country's government (15,82%) and IMF and World Bank policy toward our country (9,36%)**. We must mention that 0,27% of the entrepreneurs/managers perceive also other evolutions with malefic influence on their companies such as fiscal policy, poorly developed infrastructure, faulty way the auctions are held etc. See figure 7.



**Figure 7 Frequency of main contextual evolutions, which negatively affect SMEs activities**

## 5. Influence of the Agency for Implementation of Projects and Programmes for Small and Medium Sized Enterprises on entrepreneurial environment

Agency for Implementation of Projects and Programmes for Small and Medium Sized Enterprises (AIPPIMM) is the public institution subordinated to Ministry of Economy, Trade and Business Environment, which realises Government's policy in the field of implementation of projects and programmes for SMEs, for encouraging and stimulating their setting up and development.

Analysis of entrepreneurs' appreciations concerning **agency's impact on business environment in Romania in year 2009** (figure 8), reveals the following:

- **53,75%** of the surveyed declared that **are not able to pronounce on this aspect**, a highly worrying percentage, which makes necessary better promotion through media of AIPPIMM's activities ;
- **Approximately a quarter (24,70%)** of the interviewed persons appreciate that the agency **had a moderate positive influence**;
- **13,50%** of the entrepreneurs consider that the public institution **did not have a positive impact** on Romanian business environment evolution;
- **only 7,96%** of the surveyed businessmen consider that AIPPIMM **had a significant positive influence**.

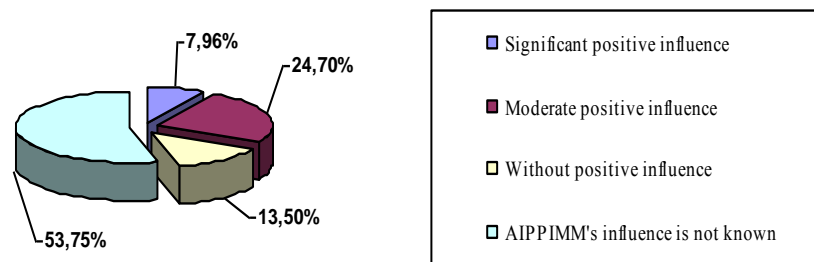


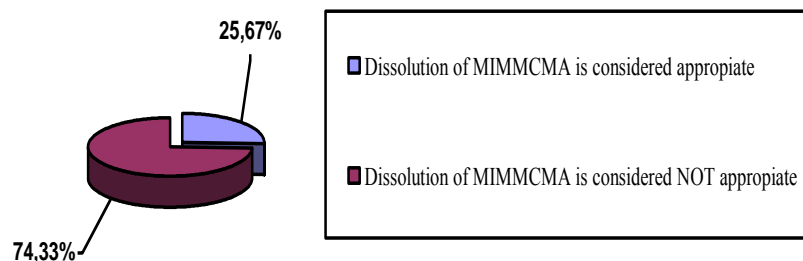
Figure 8 Appreciations regarding AIPPIMM's influence on business environment in year 2009

## 6. Entrepreneurs' perceptions concerning the opportunity to dissolve the Ministry of Small and Medium Sized Enterprises, Trade and Business Environment

Ministry of Small and Medium Sized Enterprises, Trade and Business Environment was the governmental organism in Romania specialized in SME field, whose mission was to promote development of this very important sector, taking into account its specific necessities. This ministry was abolished at the end of year 2009, its attributions being taken over by Ministry of Economy, Trade and Business Environment (through General Direction SMEs, Cooperation and Business Environment) and by the Agency for Implementation of Projects and Programmes for Small and Medium Sized Enterprises.



Survey results show that **almost three quarters of the entrepreneurs (74,33%) consider inappropriate** the dissolution of the Ministry for Small and Medium Sized Enterprises, Trade and Business Environment, revealing that the actual governmental structure should have kept the ministry, which would have continued with efficacy realisation of the scope and objectives in the field and as well of planned programmes and actions.



**Figure 9 Perceptions regarding appropriateness of Ministry of Small and Medium Sized Enterprises, Trade and Business Environment dissolution**

### **7. Recommendations of entrepreneurs regarding the activity of the Agency for Implementation of Projects and Programmes for Small and Medium Sized Enterprises**

Taking into account the problems on which entrepreneurs and managers consider that AIPPIMM should focus in the future, survey results reveal the following:

**Facilitating access to credit, structural/guarantee funds, subventions and other sources of financing** represent the recommendation most often made by decision factors inside SMEs (**16,36%** of all signalled aspects). This is due to the fact that interests and guarantees required for obtaining credit in Romania are a lot bigger compared to European Union countries, and the other forms of financial support are accessible to a little extent to SMEs.

**14,89% of the suggestions refer to agency's involvement in decreasing taxation**, justified through the high level of taxes, fees, contributions, etc. and para tax in Romania.

**Dissemination of information towards SMEs was indicated in proportion of 10,82%**, because some businessmen feel their insufficiency/lack in real/useful time, **10,48% of the propositions made by surveyed persons refer to reduction of bureaucracy**, due to considerable proliferation of paperwork without constructive character in all state institutions, and **granting assistance and consultancy to SMEs was signalled with a percentage of 10,39%**, because a part of the Romanian entrepreneurs do not possess some competences required for performing/developing their activities.

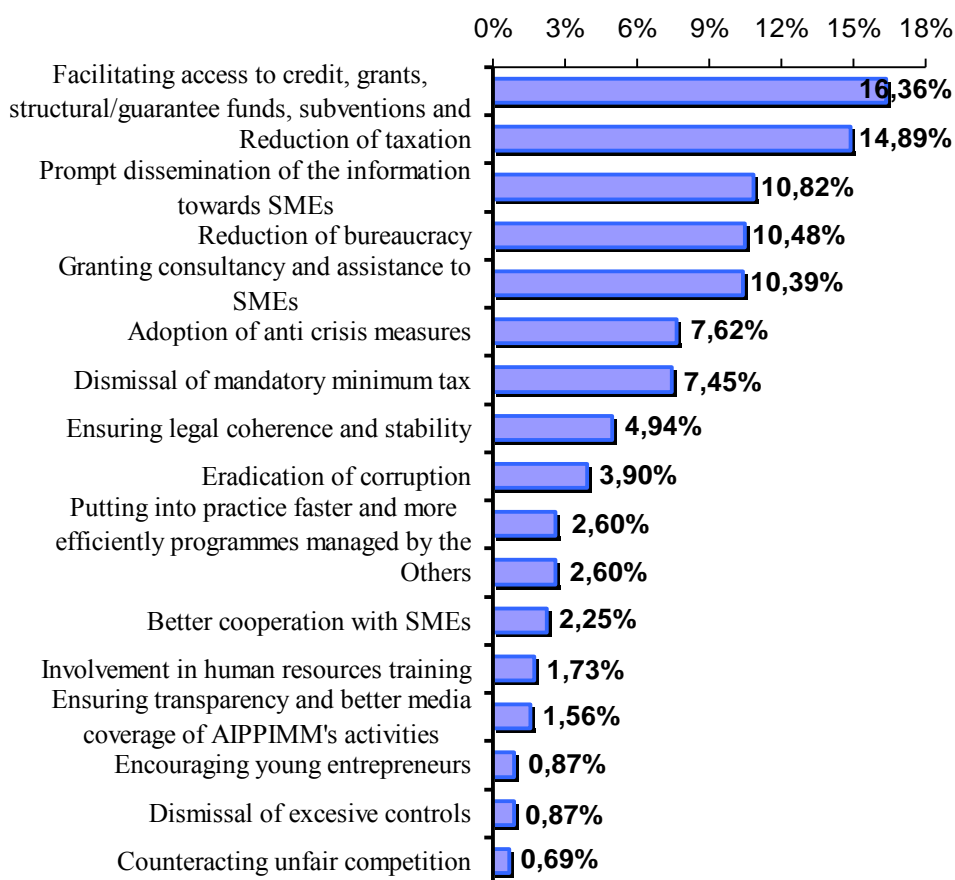
Adoption of anti crisis methods follows (7,62%), then elimination of minimum tax<sup>1</sup> (7,45%), ensuring legal coherence and stability (4,94%), eradication of corruption (3,90%), faster putting into practice of projects and programmes

<sup>1</sup> Has been highlighted separately from other elements with fiscal character

managed by AIPPIMM (2,60%), a better cooperation between the agency and SMEs (2,25%), human resources training (1,73%), ensuring transparency and better media coverage of AIPPIMM's activity (1,56%), encouraging young entrepreneurs (0,87%), dismissing excessive controls (0,87%) and fighting unfair competition (0,69%).

We notice the fact that **2,60 %** of the suggestions referred to **other aspects** which AIPPIMM should take into account in the following period, out of which we enumerate: realising prognoses, implementing new managerial and marketing instruments, performing market studies, realisation of opportunity studies, implementing new technologies, etc.

Even though quite various, we appreciate that entrepreneurs' proposals represent overall a realistic and comprehensive picture of directions for action on which AIPPIMM should focus in the next period. Graphical representation of these recommendations is given in figure 10.



**Figure 10 Main recommendations made by entrepreneurs to AIPPIMM for the next period**

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