

EVOLUTIONS IN THE NATIONAL AND THE EUROPEAN UNION BUSINESS ENVIRONMENT IN THE CONTEXT OF GLOBALIZATION

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Abstract: *The paper supposes a systematic research and few pragmatic guidelines in addressing the competitive environment (national and European) in which are operating Romanian companies, because their work is heavily influenced by the business environment and determined by the factors of it. The business environment is characterized by a special dynamic, due to changes that occur within it, especially under the impact of scientific and technical revolution that has brought to the fore the knowledge as essential element of achieving a high competitiveness. We tried to argue the need for a strategic analysis of business environment in the context of globalization, we made an analysis of current status of the Romanian business environment compared to the other European Union member states, we have outlined several measures that should be implemented to contribute to the stability and to improving the Romanian business environment and we also realized a short analysis of the Romanian economy position in the international rankings.*

Key words: competition; competitiveness; business environment; knowledge economy.

JEL Classification Codes: F23, F43, F63.

1. INTRODUCTION

In the last decades, the environment in which firms are operating has become more and more characterized by the complexity and discontinuity of change, reflected by globalization of markets, internationalization of economies, increasing international competition, persistence of inflation and the explosion of information (Platis, 2007).

Developments are threatening for refractory to new firms and represents opportunities for the companies open to innovation. They need to rationalize their strategic position based on explicit, realistic and coherent development strategies.

The company's performance and position in the competitive environment depend on the ability to capitalize the changes by adapting the internally potential to the requirements of the external environment, which is why we consider extremely important the analysis of the business environment.

2. MATERIALS AND METHODS

The development of this paper was based on the analysis of the research in the field and the statistical data available. The aim of this paper is to emphasize the characteristics of the European business environment in general, and the Romanian business environment especially



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for creating a general image about the items that must be improved in order for the Romania competitiveness in the world to increase.

The results expressed in this paper were the result of qualitative analysis of the characteristics and the evolution of the business environment in Romania and in the EU for creating a favorable environment for foreign investors in order to increase the economic growth and peoples wellbeing.

3. CHARACTERISTICS OF THE ROMANAN BUSINESS ENVIRONMENT

In a capitalist market economy with a quarter-century history, the Romanian business environment seems to be in a continuous and increasing gap in comparison with the developed economies. Faced with low competitiveness, thinning of the middle-class, accentuating a polarization phenomenon and a modest entrepreneurial spirit, the Romanian business environment seems to be at an embryonic stage of development and incapable of passing to the next level. This is confirmed by the fact that Romania only records 19 companies per 1,000 habita, the lowest level in Europe, after Serbia. Also, the average life span of a local company is only of 10 years. The very fragile state of the Romanian entrepreneurship is caused by five major challenges of the business environment: reduced competitiveness, polarization, contradiction, modest qualification of the labor force and cumbersome regeneration.

The very low competitiveness level of Romanian companies is caused by the fluctuation of raw material prices and wage billings. Thus, in this context, most Romanian companies are not able to compensate for the increase of the costs by accelerating the activity, given that the innovation activity is very low in the Romanian environment.

The phenomenon of polarization is manifested by the accentuation of extremes in the business environment: large companies have become even more enriched, while the situation of micro-enterprises has steadily deteriorated since the 2008 crisis. Thus, the largest 1,000 of companies in Romania generated about 35% of the income of all companies in 2008, while their share increased to nearly 50% in 2015.

Accelerating the phenomenon of contagion between companies, as the average term for collecting receivables, payday loans among companies has doubled over the last eight years, rising from 70 days in the 2007 to almost 115 days in 2015. We can say that firms use intensive commercial credit, but the reverse of the coin is sometimes dramatic, with insolvencies not always caused by their own business.

We can also observe the worrying phenomenon of the reduced availability of human resources, and this, together with a modest skill, hampers the development of Romanian affairs. Thus, in the last 25 years, the population aged over 70 years has increased by 53%, while the age category under 29 years has fallen by 40%. At the same time, Romania has the lowest level of education expenditure in the EU as a percentage of GDP, namely 3%, as well as the lowest level of pupils enrolled in primary and secondary education of the total population, respectively 16%.

The business environment is heavily regrouping - given that the number of companies that break their activity is double compared to newly established firms. We are talking about a true process of creative destruction, of which effect can be devastating. The process of creative destruction is accompanied by the caliber gap: companies which discontinue their activity have medium lifetime of 10 years, a turnover of almost 4 million lei and 20 employees. In theory, a newly-registered company starts from scratch.

All these issues are challenges that could justify a realistic and efficient outlook for the allocation of European funds, and why not even the initiation of special funding programs addressing the specific problems of convergence of less developed EU states.

According to a report published by the Foreign Investors' Council (FIC), the Romanian business environment is no longer as attractive as in the past years, although the economy, at least statistically,

does not suffer. In particular, the predictability of the legal framework and the labor market are targeted. The perception of the Romanian business environment perception deteriorates, although the economy is rising. Survey results show that over 60% of respondents expect their revenues and businesses to grow in the next year, which confirms Romania's economic growth this year and the forecast for 2018. At the same time, there is a significant deterioration in the perception of the Romanian business environment, especially regarding the predictability of the legal framework and fiscal and regulatory stability.

It is noted that 90% of respondents, in a significant increase from only 25% in 2015, claim that legislative changes affect their business plans, and 65% of them think the tax burden has increased lately, unlike 35% in 2015. Also, 75% said that the business environment in Romania has deteriorated lately and that recent developments have contributed to diminishing their confidence.

In the last two years, the number of those who say that infrastructure, bureaucracy or access to the labor force has raised them problems increased, so 42% of FIC companies say that Romania is losing competitiveness due to the labor market, compared to only 6% in 2015, this indicator being the most deteriorated in the analyzed period. In addition, 90% of respondents say infrastructure and bureaucracy have a negative impact on their competitiveness.

4. ROMANIAN BUSINESS ENVIRONMENT COMPARATIVE WITH THE EU ONE

Romania is a member of the European Union with a high degree of integration within it and, as a result, the Romanian business environment and its performance are conditioned by the state of the business environment, evolutions and performances of the European Union.

That is why we chose to analyze the Romanian business environment compared to the European Union one based on an annual report realized by the World Bank. It's called Doing Business Report, which analyzes the obligations of an average company in its second year of activity. The ranking measures the ease of doing business and takes into account the criteria for starting a business, obtaining permits, access to finance, taxation, access to outlets and insolvency.

Romania ranks 36 in the "Doing Business 2017", with a total score of 74.26 points after Kazakhstan.

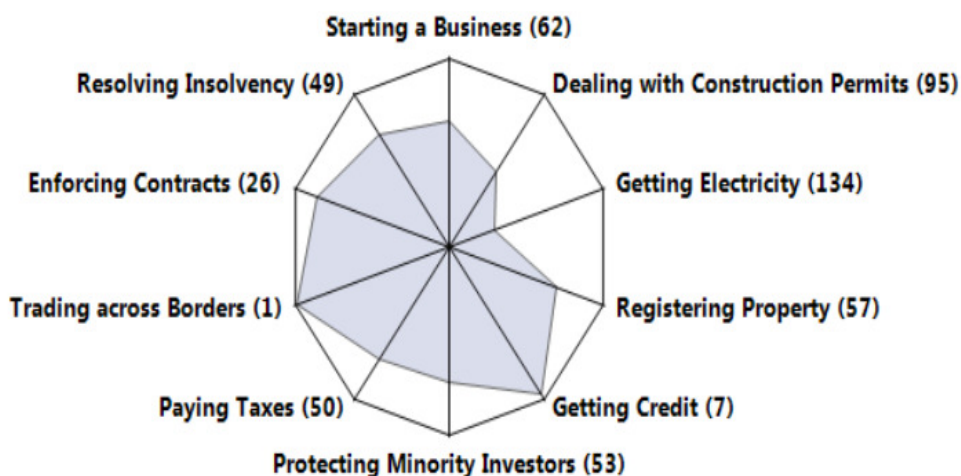


Figure 1. Distance to frontier scores on *Doing Business* topics – Romania
 Source: Doing Business Report, 2017, Romania, p.9

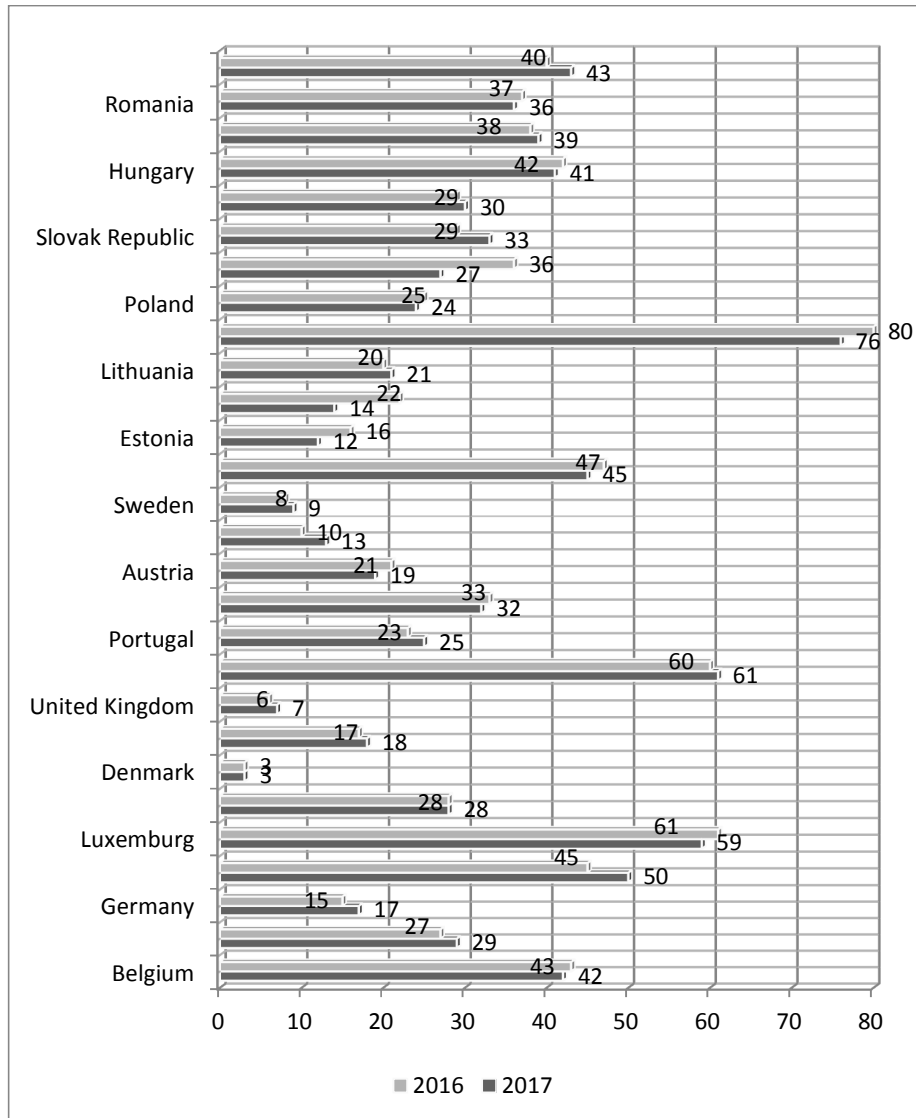


Figure 2. Ease of doing business in EU (rank)

Source: realized by the author based on the information from World Bank - Doing Business Report 2016, 2017

Although Romania's overall score this year is 0.14 points higher than last year, our country lost a position in this ranking, registering a lower score on opening a business, mainly due to the impediments generated by the registration form for VAT purposes, the already famous D088. The report states that the score has fallen because the start of a business has become more difficult due to the increase in the time required for registration of VAT. In 2015, the National Agency for Tax Administration introduced a VAT registration statement, D088, which blocked the businesses of many companies and was in the top of complaints to the Paper Cutting Commission. In the summer, the statement was amended, but the business environment continued to express its dissatisfaction with the National Agency for Tax Administration procedures.

Compared to last year, Romania lost 17 positions in the ease of starting a business, reaching 62th place compared to 45 last year. According to the World Bank report, the average

time to start a business is 12 days, compared to 8 days last year. The World Bank notes that "it's harder to start a business in Romania because of the changes made to the VAT registration."

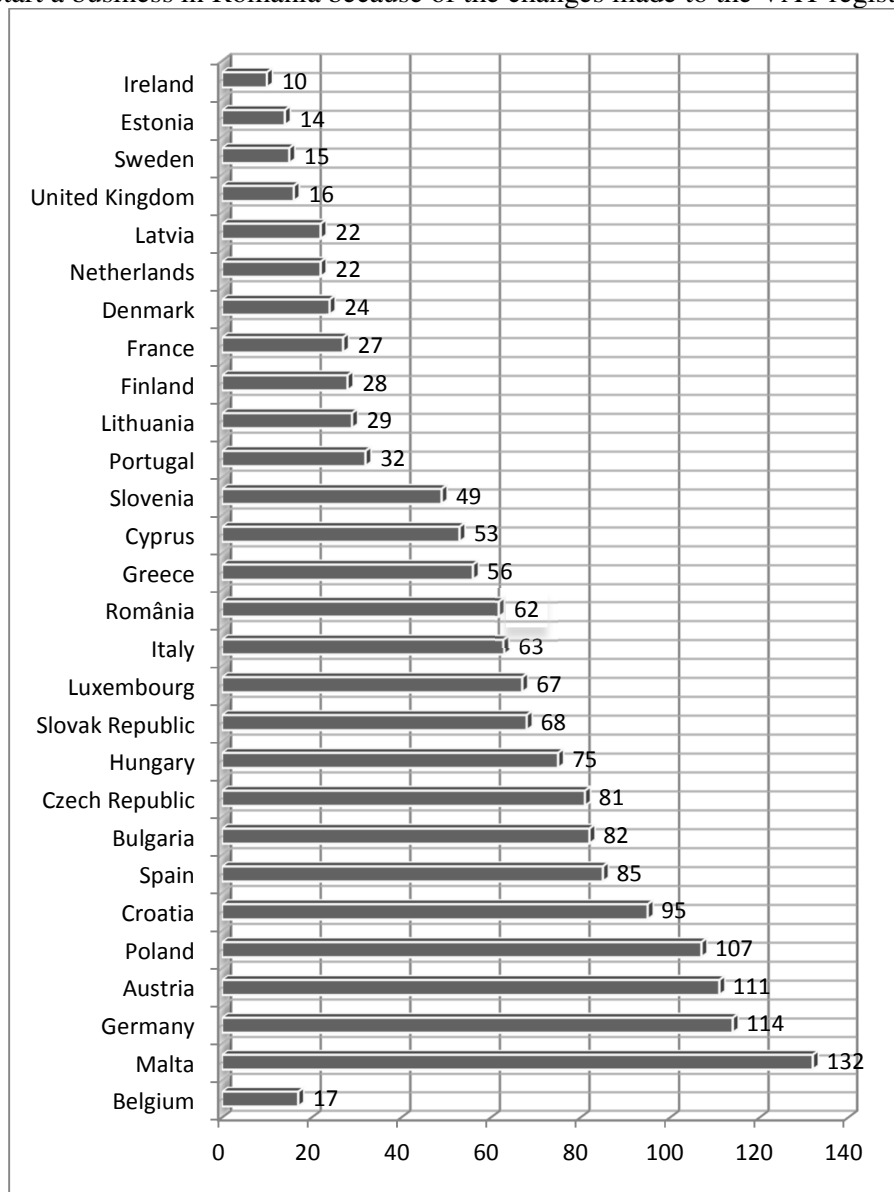


Figure 3. Starting a business in EU (rank)

Source: realized by the author based on the information from Doing Business Report 2017

According to the report, Romania is the worst in obtaining electricity and obtaining building permits. On electricity, Romania was ranked 134th out of 190, an even worse result than last year when it was 133th.

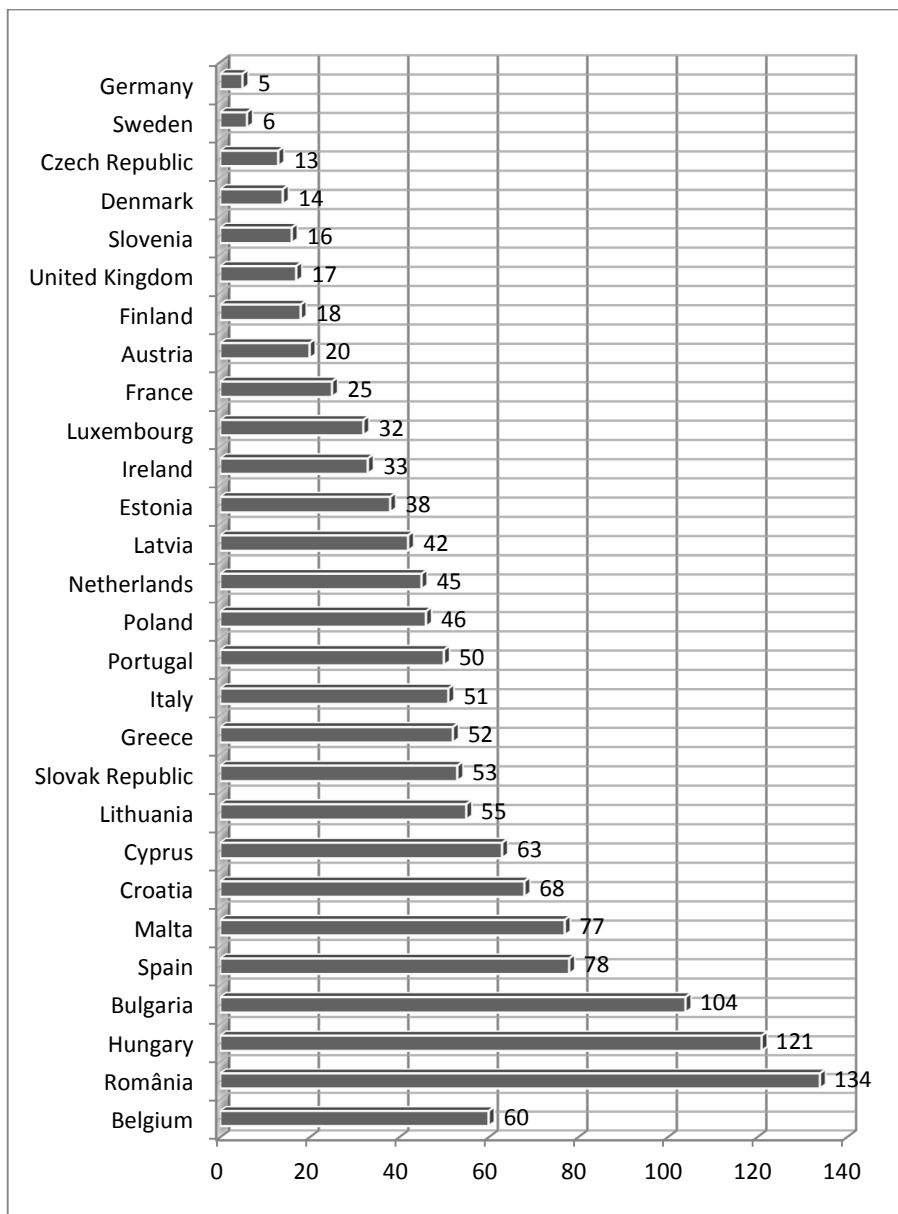


Figure 4. Getting electricity in EU (rank)

Source: realized by the author based on the information from World Bank - Doing Business Report 2017

To obtaining “building permits”, Romania made a number of breakthroughs, but Romania wasn’t able to move to the middle of the ranking, ranking only to 95. Last year Romania ranked 105 in this chapter.

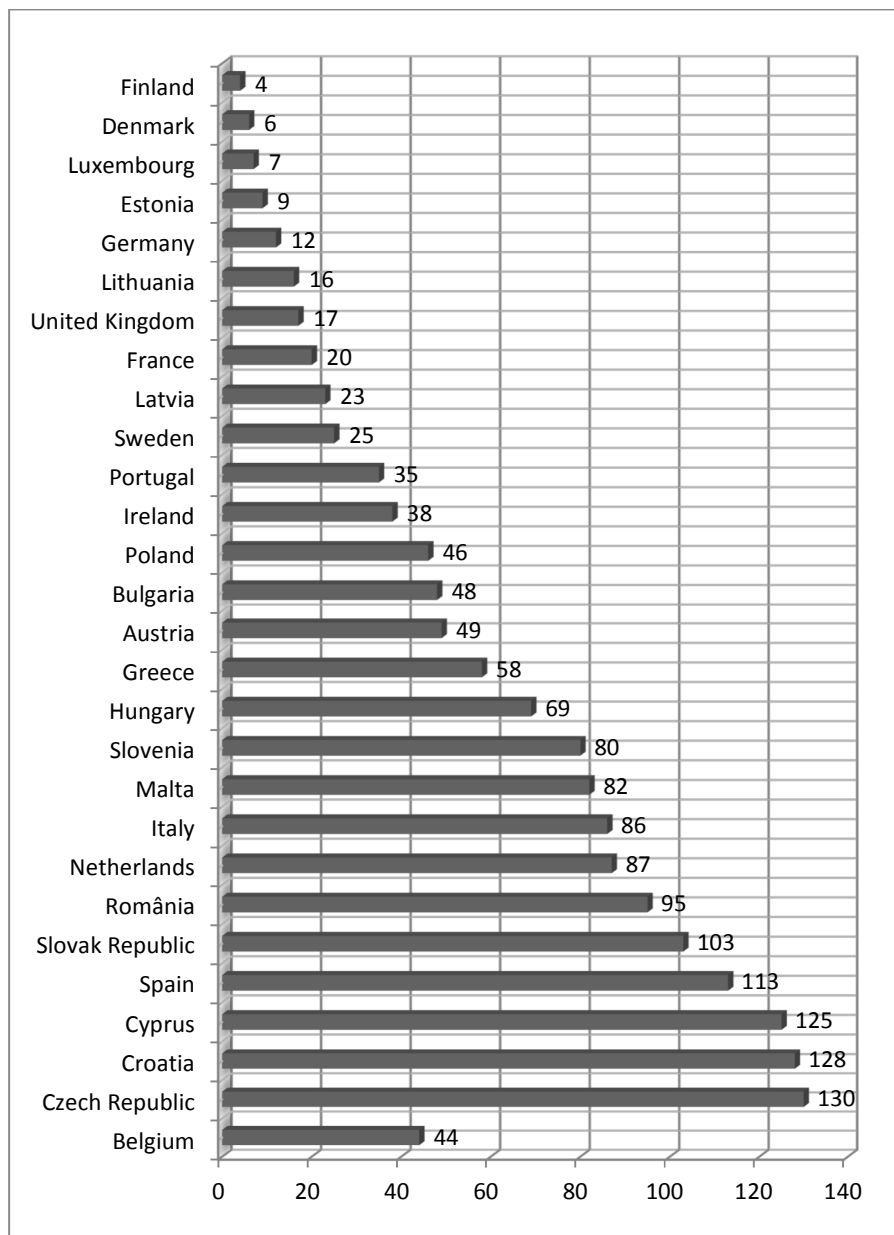


Figure 5. Dealing with construction permits in EU (rank)

Source: realized by the author based on the information from Doing Business Report 2017

In determining the position of Romania in terms of property registration, the following indicators were considered:

- The number of procedures required to register a property;
- Time required for registration (in calendar days);
- The official cost of property registration (as a percentage of its value).

From this point of view Romania is ranking 57, while in the first place from the EU member states is taken by Lithuania, which is ranking 2 in this report.

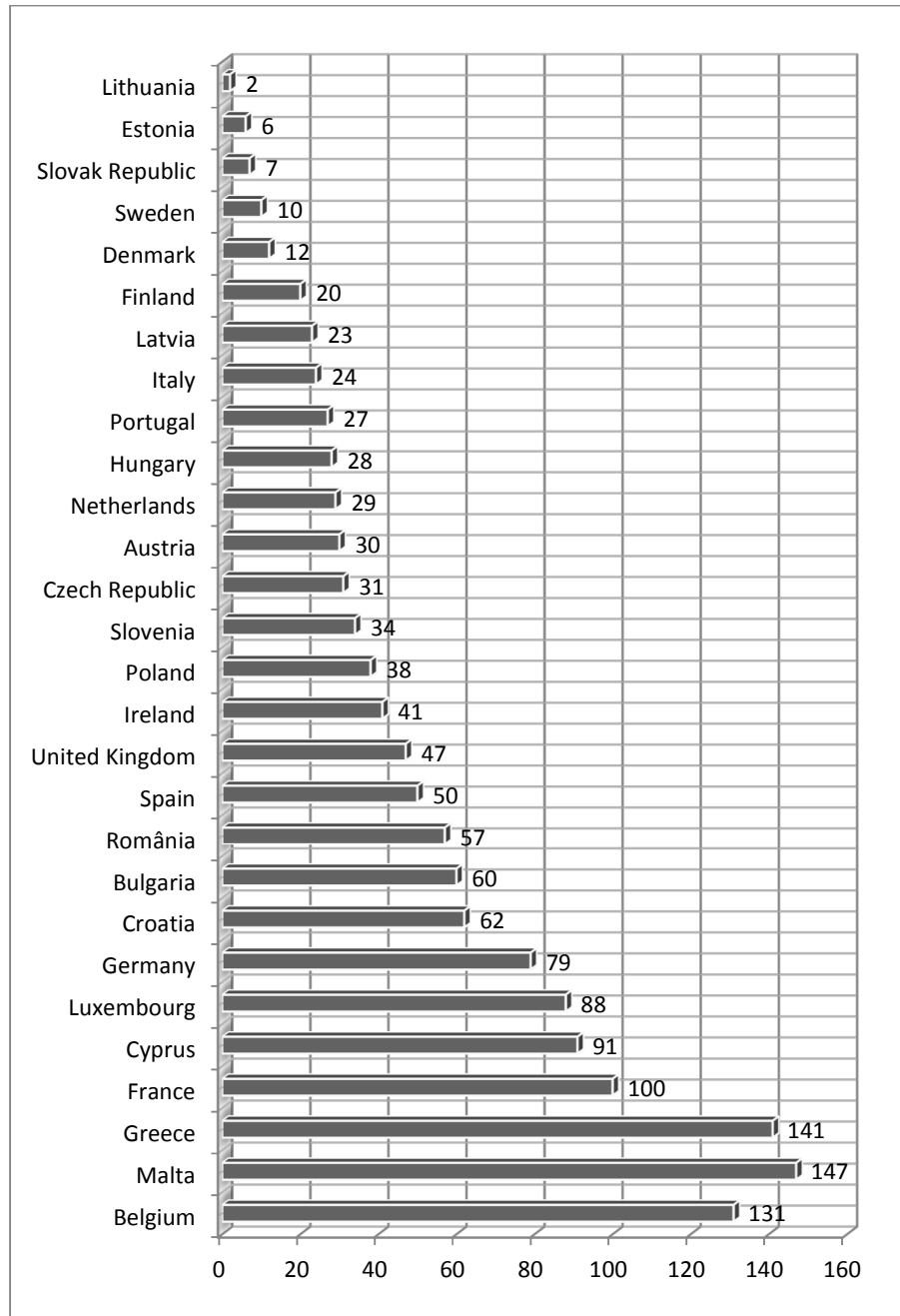


Figure 5. Registering property in EU (rank)

Source: realized by the author based on the information from Doing Business Report 2017

The World Bank evaluates the business environment of an economy using 10 criteria. Of these, the internal business environment is best placed to "getting credit", where Romania is ranked 7th in the world, alongside Latvia, which achieved the same score. Romania is one of the countries where companies have easy access to finance, according to the World Bank study.

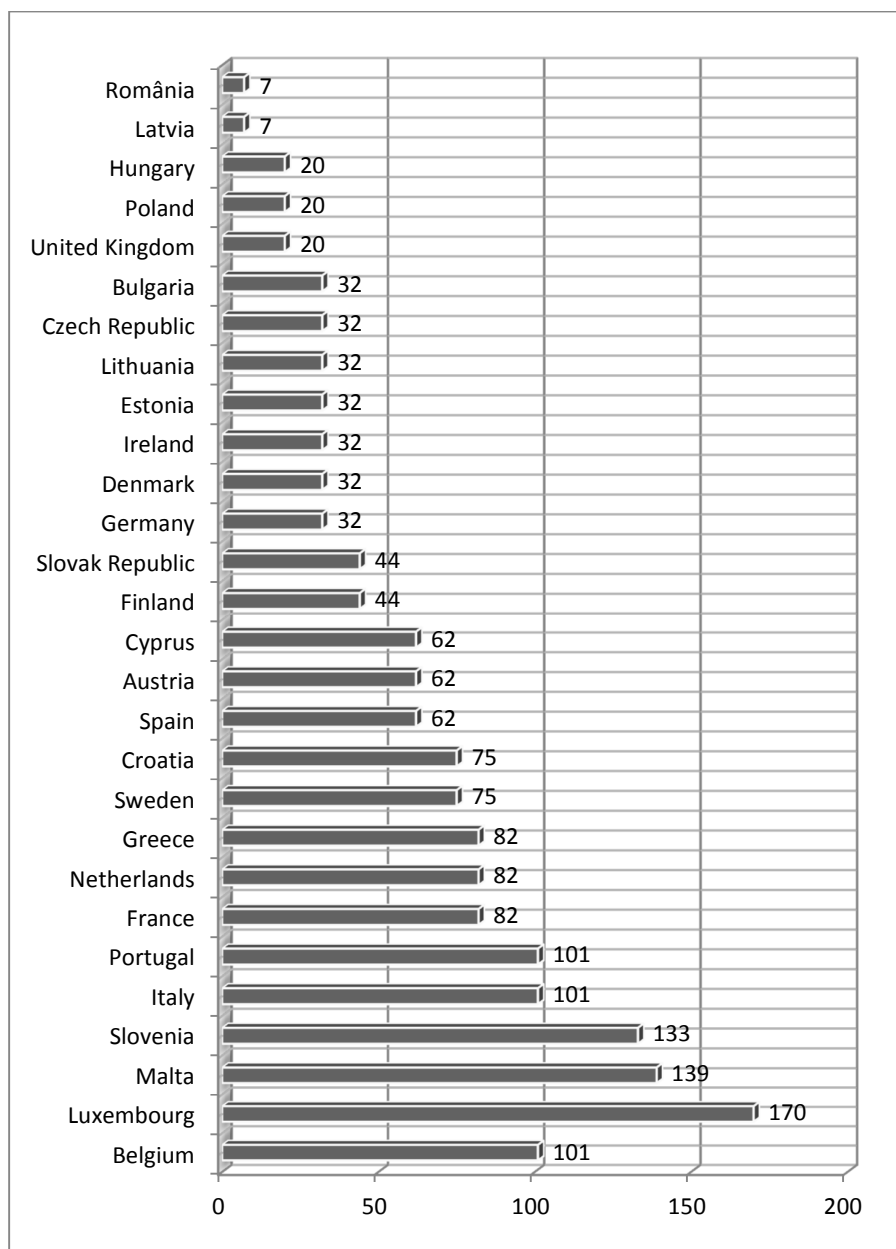


Figure 6. Getting credit in EU (rank)

Source: realized by the author based on the information from Doing Business Report 2017

Protecting minority investors matters for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. Effective regulations define related-party transactions precisely, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set detailed standards of accountability for company insiders (Doing Business Report, 2017).

From this point of view Romania ranks 53, while the first place in the EU is taken by the United Kingdom, which ranks 6 in the report.

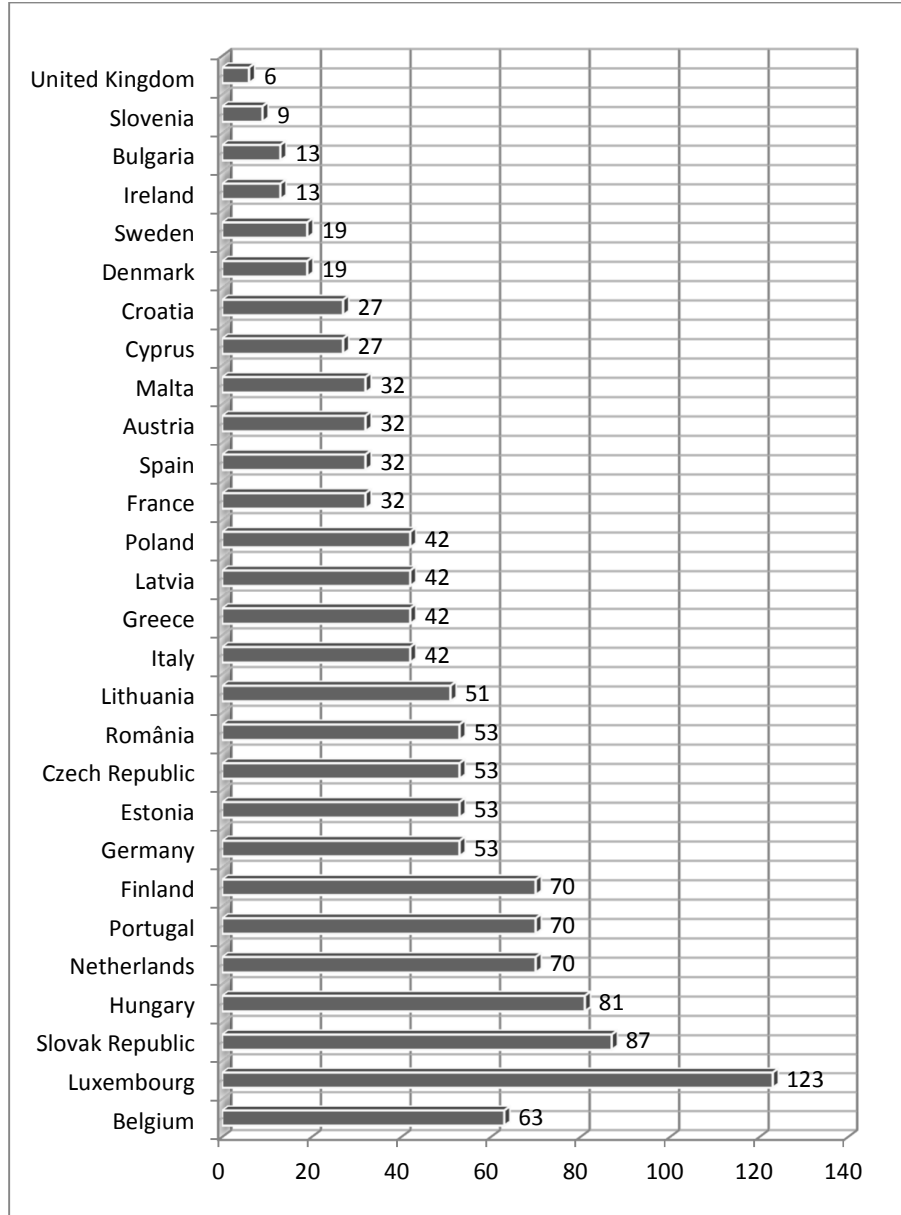


Figure 7. Protecting minority investors in EU (rank)

Source: realized by the author based on the information from Doing Business Report 2017

"Paying taxes" refers to the number of annual payments (14), the time spent for their payment (161 hours), the total profit tax rate (38.4%), the subsequent tax returns, and the time required for VAT reimbursement, to obtain a refund, the time allocated to a tax audit related to corporate income tax and income tax.

The explanation for ranking better at the "Paying taxes" is that the cost has fallen as a result of reducing social contributions. Employers' contributions were down 5 percentage points.

Romania ranks among the other Eastern European states: Poland (24), Czech Republic (27), Slovenia (30), Slovakia (33), but Bulgaria (39) and Hungary (41).

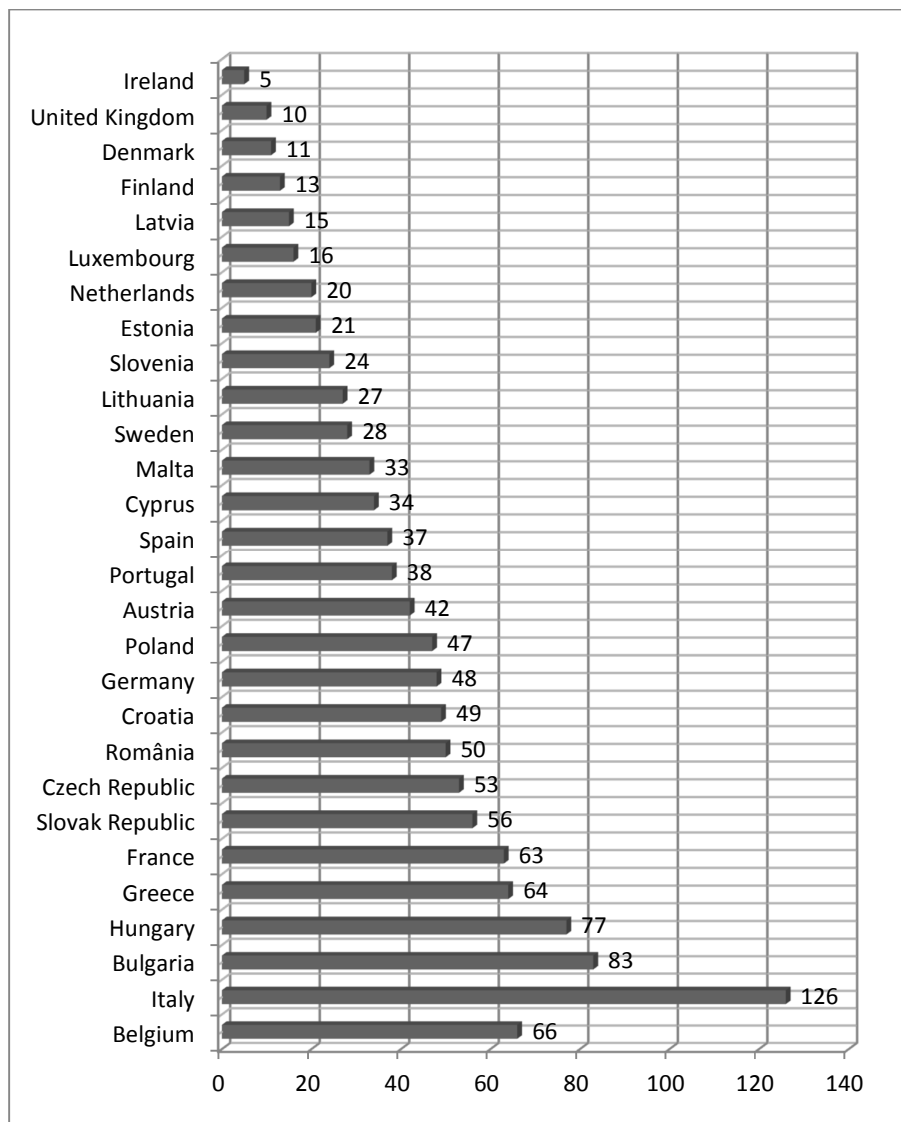


Figure 7. Paying taxes in EU (rank)

Source: realized by the author based on the information from Doing Business Report 2017

Shortly, the evolution of the main indicators of the business environment in Romania in 2017 compared with their value in 2016 is presented in table 1.

Table 1. Ease of doing business in Romania

Indicator	Score 2017	Score 2016
Ease of doing business	36	37
No. of procedures	6	5
Time (days)	12	8
Getting construction permits	95	105
No. of procedures	20	15
Time (days)	171	257
Getting electricity	134	133
Time (days)	182	182

Registering Property	57	64
No. of procedures	7	8
Time (days)	21	19
Getting credit	7	7
Protecting Minority Investors	53	57
Paying taxes	50	55
Number of payments per year	14	14
Time (hours/year)	161	159
Percent of profit (%)	38,4	42
Enforcing Contracts	26	34
Resolving Insolvency	49	46

Source: realized by the author based on the information from Doing Business Report 2016 and 2017

From the 190 countries analyzed by the World Bank, New Zealand ranks first in the hierarchy of countries where it is the easiest to do business with a score of 87.01 points, followed by Singapore, Denmark, Hong Kong, China, South Korea, Norway, Great Britain, USA, Sweden and the former Yugoslav Republic of Macedonia. The last places are Eritrea and Somalia.

The World Bank points out that a record number of 137 economies have made reforms last year to make it easier to start a business. The countries that made the most progress are Brunei, Kazakhstan, Kenya, Belarus, Indonesia, Serbia, Georgia, Pakistan and the United Arab Emirates.

5. CONCLUSIONS

2017 was an economically paradoxical year: although the business sector had some good months (turnover increases, concluded transactions, new private investments, hiring, appetite for international expansion), from a number of public institutions came some measures and decisions characterized by entrepreneurs and investors by words like "chaos", "instability", "lack of predictability", "fiscal involution."

The following 17 ideas, measures and economic decisions have unleashed Romanian entrepreneurs and foreign investors, and may have a negative impact in 2018, the Year of the Centenary.

- ✚ Elimination of the CAS and CASS payment ceiling;
- ✚ Locking HG 807, a useful project for investors;
- ✚ Additional fee for part-time contracts;
- ✚ VAT Split;
- ✚ Moving contributions from employer to employee;
- ✚ Overcharged excise;
- ✚ Tax Invocation in IT & C;
- ✚ Increase the minimum wage;
- ✚ Introduction of criminal liability for entrepreneurs and managers;
- ✚ Solidarity Fee;
- ✚ Changes in tax on rolling stock;
- ✚ Decrease in Pension Pillar II;
- ✚ Raising local taxes due to the Fiscal Revolution;
- ✚ Attack to Corporate Governance;
- ✚ Incentives for ANAF employees in the given fines.

Companies need to cross the border directly if Romania's economy aims to become a regional force, and the impact of Romanian investments abroad is worth systematically analyzing to understand our country's place in regional economic diplomacy.

A comparison with other countries in the region, Bulgaria, Hungary, the Czech Republic and Poland, shows that Romania still has a lot to do. Thus, the flow of Romanian investments abroad amounts to only 241 million dollars, a strong erosion in comparison with the value of 562 million dollars in 2015, according to the latest advertising data.

As for the stock of Romanian investments abroad, it rose to 910 million dollars in 2016, according to UNCTAD data. If Romania attracted 4,128 foreign greenfield investments in a year, the number of similar projects of Romanian companies launched in 2016 is only 57, compared to 273 greenfield investments in 2015 and 538 in 2014.

The context in which Romania find itself is that, in the years to come, the authorities, the press, the financiers and the consultants are called upon to provide domestic firms that make foreign investments abroad at least the same attention given to foreign firms that make direct investments in our country.

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