BUSINESS CLIMATE SURVEY IN ROMANIA
RESULTS AND ANALYSIS

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ABSTRACT. This text focuses in the analysis of the business climate in Romania and some comparison with other states. Before the analysis was took place the survey conducted among employers of residents in 7 judets and 2 additional cities in the second half of 2003 and in two additional judets in the first half of 2004. The survey was realized by Bermangroup - international economic development consulting firm and the analysis also with University of Pardubice, Faculty of economics and Administration.

The objective of the survey was to provide useful and credible information concerning the attitudes of those who invest and create jobs in respective judets and cities. Survey items included the history and status of the business, the nature of its business, labor and employee matters, business facility information, government services and relations and overall impressions of a town and judet as a place to do business.

Romania is becoming an attractive country for investors because of its available work force working for very low salaries. This is not sustainable model for further economic development, however the benefit of this comparative advantage has to maximized now. At the same time companies in Romania rank work force quality lower than in competing CEE countries (especially in Slovakia) where salaries are on a slightly higher but comparable level. The growing lack of skills (especially in technical professions, financial services and marketing) belongs also among important weaknesses of the Romanian economy.

Companies complain about the situation in national economy in a similar way as Czech and Slovak firms did several years ago. On the other hand investment plans are very optimistic and predicted expansion (in relative figures) at current location is higher not only than in the Czech Republic and Slovakia but also higher than in the U.S.A.

I. INTRODUCTION

Under the GRASP program a business climate survey was conducted among employers of residents in 7 judets and 2 additional cities (judets Arad, Bihor, Braila, Giurgiu, Harghita, Iasi and Salaj, cities Caracal and Mioveni) in the second half of 2003 and in two additional judets (Craiova, Sibiu) in the first half of 2004. The objective of the survey was to provide useful and credible information concerning the attitudes of those who invest and create jobs in respective judets and cities. Survey items included the history and status of the business, the nature of its business, labor and employee matters, business facility information, government services and relations and overall impressions of a town and judet as a place to do business. Several answers were town-specific, however majority of information gathered within the surveying can be generalized and useful information about business climate in Romania can be derived. Although surveying of 680 companies cannot definitively reflect the attitudes of the entire business

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community, these firms, large and small, traditional and new, employ significant part of the economically active work force in each judet, especially in industrial medium-sized companies.

II. METHODOLOGY

680 surveys were completed in cooperation with local chambers of commerce and local government mostly in November and December 2003 and then in March and April 2004. Each judet (town) was represented by at least 40 companies. The list of companies to be interviewed included the largest employers in the judet, as well as many smaller firms with less than 25 employees each. The aggregated responses of all 680 companies are included in this report.

To encourage complete and frank responses from employers, those interviewed were assured that this report would not include references to specific businesses, and the survey forms would remain confidential.

The 680 firms employ a total of 121,613 employees. 19 companies employ more than 1,000 employees, twenty-seven other firms employ between 500 and 999 each. Significant differences were found among responses of companies in different sectors of economy (heavy industry and machinery, light industry, textile and shoes production, agriculture and food industry, transportation, construction and service sector), and much of the data was analyzed making this distinction. The group of 78 companies owned by foreign entities was also studied separately.

III. RESULTS OF THE SURVEY

1. Status of Businesses

Of the 680, 576 companies were founded since 1990. The highest share of newly established companies is in service sector and also in light industry, while in food industry and construction there are mainly traditional firms. This indicates both vitality of entrepreneurship in the area and influence of restructuring and privatizing of national economy. 78 companies employing 27% of surveyed sample are now owned by foreign capital, only twenty companies (employing less than 11% of surveyed sample) remain state owned. The majority of companies surveyed is owned by physical persons and domestic legal entities.

2. Businesses in General

In most of the judets we can find the following structure of local economy: (1) textile and shoe production industry, often owned by foreign investors; (2) strong heavy industrial clusters, especially in machinery, (3) important individual light industrial companies, e.g. in packaging, furniture and/or electrotechnics, (4) agriculture and food industry, (5) transportation and construction companies and (6) smaller and medium sized trade and service companies started by local entrepreneurs. Foreign owners employ 27% of employees within this sample, however this number is strongly influenced by Dacia company, without it this would be only 18% which is also an average for “normal” judet. Foreign capital entered mainly textile and shoes production (31 out of 78 FDI owned companies within this sample), transportation, wood processing and machinery (car parts).

Companies were asked to name the factors having a negative impact on current and future development (see chart 1) of their products and services. In order of priority (1) general economic situation was the most important factor since mentioned by 73% of firms, especially from machinery and food industry (both up to 80%); (2) national legislation is a problem for 49% of companies (most often mentioned in textile and service sector), (3) energy costs for 31% of firms (over 40% of machinery and light industry companies). Construction and
machinery companies have also problems with costs of materials (40%, while average of all firms is 29%). Domestic competition is the most serious in service sector. Interest rates and availability of financing represent a problem mainly for construction and textile companies. Companies in service sector also complain on availability of skilled labor (20%, while average of all firms is 15%). On the other hand environmental constraints, transportation problems and distance to markets are a problem for less than 6% of firms. Foreign owned companies have generally less problems with financing (interest rates and availability of financing is mentioned significantly less often) and more with foreign competition. Local administration attitude is mentioned three times more often by small companies than by large firms (18% : 6%).

Entry into EU is expected rather positively, however companies are also aware of negatives (see charts 2 and 3). Stable business climate (65% of respondents, 80% in machinery) and access to a big market (50%, mostly for exporters from textile industry) were mentioned most often among the positives. More than 55% of machinery (and 50% of food processing) companies expect opportunities connected with participation on EU programs. Easier law enforcement will be appreciated by 45% of light industry companies. Foreign owned companies are not so eager to participate in EU programs (only 28%) but 53% of them would like to see easier law enforcement instead.
On the other hand 53% companies are afraid of strong competition (most often in food and agricultural sector, least often in textile). 52% expect higher labor costs (mainly in textile – up to 80%) and 45% of investments to adapt to new conditions (and over 60% in food industry). End of low price advantage will create problems to almost 30% of service sector and construction companies. Strict environmental legislation may threaten mostly machinery and construction firms. Higher labor costs represent the main problem for foreign owned companies (mentioned by almost 60% of them).
3. Customers

Almost all firms provided information about geographic distribution of their customers (chart 4). Only 112 companies reported that they export more than one half of their goods and services out of Romania and less than one hundred export at least 10%. That is why less than 30% of total sales go outside of Romania even if the foreign owned companies are strong exporters with 56% of sales abroad. Both textile and light industry companies are significantly export oriented with 70%, resp. 50% of sales out of country. On the other hand construction, agricultural, food processing and service companies serve almost exclusively to Romanian market.

Chart 4 – Export orientation

Vast majority of companies expect (often more than 20%) increase of sales in 2004 related to 2003, however, several of the construction and service companies report decrease in sales. The overall expectation is very optimistic, the aggregated sales in the entire sample should be increased by more than 22%. An average sale per employee is about 925 million lei, the highest (over 1600) in service sector and the lowest (about 400) in textile. Foreign owned companies report almost twice as high numbers (1865). Customers are also the main reason for 57% companies to be located in their place – very often for service sector, 41% firms reported that they have suppliers of raw materials (majority of food industry and agriculture companies) and only 24% report suppliers of components. Research and development within the judet is mentioned only by 10% (usually machinery) of companies.
4. Labor and Employment Matters

The total number of full time employees in these 680 firms is 121,613, compared to 124,779 last year. Chart 5 shows relative changes in employment in individual sectors. New jobs were created mainly in service sector, textile and food industries when at the same time several other large manufacturers (machinery) were losing jobs. The trend in last 2 years is relatively stable and when asked on new investments, companies answer that they plan to create over 8,600 (!) of new jobs. This increase is planned mostly (relatively to number of employees) in food industry and services (and in small companies rather than in large ones). Foreign owned companies went through some downsizing but the situation seems to be changing right now and investors also predict to create new jobs.

The good diversity of economic structure is also proved by the fact that about 48% of employees are women (over 80% in textile). Share of university graduates rose up to 9.5% partly also because of the downsizing which kept the more qualified positions in companies. Commuting to work is also an important pattern in Romania with at least 25% of commuters in every town and judet. The average number of employees per surveyed firm in 2003 is 163 compared to 205 in 1998. This is mainly because several of the small and medium-sized did not exist 5 years ago and it also proves the growing importance of the SME sector.

Employers are quite satisfied with the quality of their work force. Overall, 14% of workers are excellent, 61% are rated good, 21% fair and 4% poor (chart 6). The highest number of excellent workers is reported from service sector (28%). Construction companies also tend to be very satisfied (80% either excellent or good) while food industry and machinery report over 30% of fair and poor workers. Foreign investors report the relatively lowest level of satisfaction (13-57-25-5), however they several times mentioned importance of work force quality as a factor for their decision to locate in Romania.
The average monthly wages paid by all surveyed are 4,873,000 lei, the lowest in services, food and light industry and the highest in machinery (chart 7), when less than 20% of companies pay in average more than 5,000,000. Foreign owned companies report the highest wages even if they are not that much represented in machinery (the best paying sector). However, comparison of sales and salaries shows that there is also high productivity in these firms.

37% of companies (in all sectors but mostly in machinery and light industry) are missing specific professions and skills, which are important for their future development and 22% expect to have this problem in future. The best situation seems to be in construction and transportation where 57% report no problem. Also 53% of foreign owned companies is satisfied. The highly qualified technically oriented professions – engineers, designers, IT specialists, financial and marketing experts are mentioned most often as missing.

5. Business Facility Information

Situation in this area has both positives and negatives (see chart 8). While current situation may be sufficient, insufficient room for expansion may become a problem for number of companies. Many (especially in service sector) on the other hand plan to invest substantially in facility improvement. 459 of the 680 companies own their facilities and 44 both own and rent, the highest share of owners is in food processing industry, the lowest in services. 511 companies report that they own sufficient property to allow for expansion as needed, however situation of several others is so bad that they are even considering relocation because of inadequate facilities (besides of service sector there is also unsatisfying situation in machinery). Only 16% of companies plan to sell or rent part of their property. Foreign owned firms are generally in better position, own their property more often and also more often have space for expansion.
Chart 8 – Business property information

It is very positive that 342 companies plan to modernize or improve existing buildings, mostly during this and the next year. Expected investments range from 80 million lei to hundreds of billions. In aggregate, these new investment exceed 4,500 billion lei and will create about 8,650 permanent jobs, especially in food processing, textile and service sector. 140 companies (21%) intend to expand elsewhere in the country and 159 (24%) are considering this (mainly in machinery and service sector). 48 firms (7%) intend to move their operations because of changing market conditions and inadequate facilities and infrastructure at site. The worst situation is logically among small firms (10% intend to move and 19% consider this). Since 105 other companies (15%) at least think about replacement of their operations, both local and state government should adopt an active approach in order to keep jobs and investments at home. Companies when asked answered that changed attitude of local government, lower fees and taxes and improved infrastructure would make them change their minds.

6. Government Services and Relations

The companies were asked to rate nine municipal government services on a scale of 1 to 4 (1 = excellent, 4 = poor). There were no substantial differences among individual judets so the results can be used for Romania as a whole. On average, these services were rated rather "fair" at 3.20 (see chart 9). Some satisfaction was always expressed with Police performance (2.78), licensing and permitting for business (2.92) and for construction work (2.96). The companies were very unsatisfied with Roads maintenance (3.65), SME support (3.59) and infrastructure development (3.46). The most satisfied were the construction companies (average 3.07) and the less satisfied are the textile and service sector companies (both 3.26). Foreign owned companies are even more unsatisfied with road maintenance (3.82) and somehow more satisfied with offer of business property (3.09), however the differences are too small.
Overall, the responses to this question indicate that businesses recommend initiatives that might be taken especially in the area of SME support through better cooperation with local government and bureaucracy reduction. Among the comments were most often the following:

- better access to financing for SMEs, giving bank credits with lower interest rates;
- help with access to EU funds and programs;
- infrastructure improvements;
- direct investments into business property and infrastructure;
- better road maintenance;
- lower bureaucracy, more transparent policy;
- transparent public tenders;
- better information providing to businesses;
- closer cooperation between local government and local businesses.

The companies were also asked which services to businesses should the local government provide. Chart 10 shows that firms do not support that much direct or indirect financial assistance and strongly welcome activities which can be provided for almost no costs – cooperation, information and joint promotion. Construction of industrial sites and Business incubator are recommended by more than 85% (resp. 80%) of companies as a very visible activity to improve the local business climate and attract new job creating investments. It is interesting that 100% of foreign owned companies support industrial sites construction! They also support more than domestic companies the idea of training of work force. The companies also opened the sensitive issue of public tenders.
Companies evaluated contacts with government individuals and organizations. Results may vary among individual cities but generally are rather positive as seen at chart 11. Chamber of Commerce, Tax collection and Labor offices received everywhere very positive grades and are being visited very often. Foreign owned companies also report positively about contacts to city secretary. Planning office, assets office and business association on the other hand belong among those not contacted very often. Companies reported some problems while dealing with urbanism directorate, local councils and mayors and judet authorities.

Chart 10 – Recommended business assistance services / interventions
7. Overall Impressions

The firms were finally asked to give their overall impressions of their local government. Municipal government was usually rated better than prefecture and than county council. The companies were also asked about their overall opinion of the town as a place in which to do business. These responses were not very positive.

Examples of positive elements of local business climate mentioned by the companies are usually the following three:

- Qualified and inexpensive labor force;
- Geographical position (no matter which judet), foreign owned companies often mention the border proximity;
- Industrial tradition and existing ties and contacts (for domestic companies).

There are usually more negative factors identified in each judet that are mostly concerned with business climate and technical infrastructure. Companies expect local government to adopt a more proactive approach in creating better business climate in the town:

- Not transparent public tenders
- Corruption and bureaucracy
- Lack of the business facilities, poor infrastructure (roads in county)
- Low purchasing power, small market
- Not enough of external investors
- Lack of some specialized skills
- Lack of communication and cooperation between LG and SME.

IV. CONCLUSIONS

(The following comments are based on business surveys completed in Czech Republic, Slovakia and Poland since 1997, USA Corporate survey 2002 and 2003 and OECD numbers about FDI).

FDI inflow to Romania has been low in comparison to the size of the country and other CEE countries. Romanian FDI figures are mainly linked to the start of privatization-related selling of state owned companies to foreigners. Majority of FDI stock is located in the manufacturing industries, the rest mainly in trade and financial services. Textile and machinery followed by light industry belong among industries where investors own a significant share of the entire sector. On the other hand food industry, agriculture, construction and transportation are still mainly domestic companies.

Low numbers of follow-up (expansion) and green-field investments indicates slow restructuring of Romanian economy. However, there is a substantial difference among individual parts of the country. We can see an increasing green-field investment activity mainly of medium-sized companies located along the Western border and engaged in processing while Eastern and Southern parts are still lagging behind. Exports are increasing over the last three years, although the export orientation of local and regional economies remains lower than in more progressive CEE economies (Czech Republic, Slovakia, Hungary, Slovenia). The structure of exports has not yet shifted towards higher value-added products and services much but remained confined to labor intensive sectors such as textiles, clothing and leather goods.

Future development of Romanian economy is dependent on achieving continuous high growth of productivity levels. This can be done by focusing on research and development and introduction of new technologies in the production and service provision processes. So
far the situation – compared e.g. to the Czech Republic or Slovakia - reflects considerable stagnation. The number of companies using Internet for active contact with customers or e-business direct sales / procurement solutions is lower than in other countries of Central and Eastern Europe as well as the number of firms which have their research and development activities within the region.

Romania is becoming an attractive country for investors because of its available work force working for very low salaries. This is not sustainable model for further economic development, however the benefit of this comparative advantage has to maximized now. At the same time companies in Romania rank work force quality lower than in competing CEE countries (especially in Slovakia) where salaries are on a slightly higher but comparable level. The growing lack of skills (especially in technical professions, financial services and marketing) belongs also among important weaknesses of the Romanian economy.

Companies complain about the situation in national economy in a similar way as Czech and Slovak firms did several years ago. On the other hand investment plans are very optimistic and predicted expansion (in relative figures) at current location is higher not only than in the Czech republic and Slovakia but also higher than in the U.S.A. So far Romanian domestic companies have not yet started noticeable expansion abroad.

One of the biggest problems mentioned by many of the responding companies is cooperation with local government and transparency of decisions made on local level. Substantial share of contacts to local government is reported to be influenced by bureaucracy and corruption.

This Business Climate Survey reflects the accumulated opinions of the major employers in 11 Romanian judets. Their collective attitudes towards government and its practices can be seen as a proxy of current business climate in Romania. Quality of this climate that allows businesses to trade and grow in a free market economy will determine whether Romanian economy will grow, stagnate or decline. This is why the trends and attitudes observed within the survey shall be carefully studied and addressed by politicians, state institutions and business associations.