

The effects of bureaucracy over the business environment from Romania

Laurențiu Gabriel FRÂNCU
Bucharest University of Economic Studies
laurentiu_francu@yahoo.com

Abstract. *The business environment from Romania is facing many problems, including bureaucracy. At global level, entrepreneurs face different bureaucratic systems that affect more or less the interest in investing in certain regions or fields. This study aims to analyze the main effects of bureaucracy over the business environment from Romania and their impact on sustainable economic development. Also, I will analyze a questionnaire among young people (21-34 years) about the bureaucracy role in their decision to open their own business. Therefore, it will be seen if the Romanian bureaucratic system is among the main negative effects that affect the entrepreneurs decisions to invest or not in Romania.*

Keywords: bureaucracy, entrepreneur, competition, market, business environment.

JEL Classification: A1, B0, M2.

REL Classification: 1A, 5K, 14D.

Introduction

From the historical point of view, entrepreneurship is one of the oldest activities. Since ancient times people have tried to develop different strategies using them to sell goods, services or ideas, thus contributing to the emergence of the first forms of entrepreneurship.

Thus, throughout history we have been able to observe many important examples of entrepreneurial activities (from small manufactures to large companies). The last decades have seen a wave of entrepreneurial activity. In the 1970s and 1980s we have seen huge changes in the world - oil crisis, economic recession, technological progress, increasing globalization, and major policy changes in favor of a strong market-oriented ideology. This created uncertainty and imbalance that led to the emergence of new business opportunities and new associations (Bettis, Hitt, 1995, pp. 7-19). As a result, new and small firms have been observed by politicians, economists and policy makers as the main contributors to the economy and creating value and wealth in society (Landstrom, 2005, p. 4).

For this reason it was always important for business people to discover or identify new business opportunities and exploit these opportunities in new projects for a sustainable economic growth.

Regarding business environment, especially entrepreneurship, Max Weber has made some contributions to the development of this intensely debated topic through several papers and research during the 1910s when he contrasted the entrepreneur with the bureaucrat. As society becomes more rational the bureaucracy tends to grow in importance and can come to dominate the individual businesses. However, the entrepreneur is the only person who can keep bureaucracy to a certain level in the company. Thus, only the entrepreneur may have more knowledge about a company than the bureaucrats (Landstrom, 2005, p. 45). Max Weber is known for his studies in the research of the bureaucratic phenomenon that currently can adversely affect the activities of entrepreneurs (Weber, 1978, pp. 25-30).

Throughout history and especially today businesses have faced and still face bureaucratic problems, both within their companies (problems that only the entrepreneur is able to adjust) and the interaction between entrepreneurs with public institutions and their employees (bureaucrats). In this case the economic progress is suffering (Dobrescu et al., 2012).

The bureaucratic phenomenon and its effects can be seen very well in Romania. This problem is always present when we are facing the attraction of foreign investors in Romania or when the young people start a business.

When we want to attract foreign investors we can observe some disadvantages which we are reproached by them: lack of infrastructure, corruption, political instability, shifting and high fiscality and not least the bureaucracy.

The effects of bureaucracy over the business environment from Romania

Currently Romania is facing a major problem which means encouraging future entrepreneurs to invest in starting a business. An important problem is created by the bureaucracy that is dominating the Romanian public institutions and the effects generated by the bureaucracy over the businesses.

In Romania there are many possibilities for developing business in areas such as agriculture and tourism. It is well known that our country has a high agricultural and tourism potential, and this should be exploited as there is a high demand in the domain of the tourism from the protected areas (Minciu et al., 2012, pp. 99-113). Also in this case, the development of tourism businesses in protected areas can help sustainable development of Romanian tourism (Minciu et al., 2010, pp. 83-98) and hence the economy. But these opportunities are often lost due to excessive bureaucracy that drives the investors away from these domains.

Indeed bureaucratic phenomenon is present in all countries, including Western European countries, but in the case of Romania the effects of bureaucracy has resulted in a competitive disadvantage relative to other countries or the European Union in terms of attracting investment.

Among the negative effects created by the bureaucracy on business environment can be found:

- The large number of taxes in conjunction with the time spent paying them. The Romanian companies pay the most taxes in the European Union. To pay their taxes the entrepreneurs end up losing 200 hours annually, while in this time they might solve more important issues. Now Romania is ranked 134 of 189 countries surveyed in a poll conducted by the World Bank and by the company of consulting and audit PwC on the payment of taxes. In this case, we are situated on an inferior position comparative with less economically developed countries. According to the report *Paying Taxes 2013*, a company in Romania must make 39 payments each year by the State on account of taxes and contributions, it is 3 times more than the EU average that is 13,1 (<http://www.curierulnational.ro>). The report analyzes the ease of paying taxes in 189 countries around the world and there are taking into account three main indicators: the total tax rate (which measures the share of taxes and contributions paid by a company as a percentage of profit), the time needed to comply with tax laws (in this case is known the big number of hours you assign

a firm to fulfill its reporting obligations and to pay taxes imposed) and the number of payments that a company need to make to meet tax obligations (<http://www.curierulnational.ro>).

- Time spent with obtaining information and documents required to open a business or to obtain some authorizations. This problem can have a major impact on young people's decision to open a business or to attract foreign investors. In this case the rules and regulations of the bureaucratic phenomenon impede the proper conduct of economic activities. In this case we can speak about an opportunity cost for the entrepreneur, for example what business opportunities might lose it in the time spent to obtain certain information or approvals from public institutions. More specifically, in this case, one can think of if it is more advantageous to invest in Romania or in a neighboring country where bureaucracy is less present in the business environment.
- The lack of transparency in the provision of public information by the public institutions. In this case the entrepreneurs are facing a very important issue, because they have difficulties in obtaining the information necessary for the proper course of the economic activities. The public institutions must be transparent in providing public information to satisfy the needs of the natural and the legal persons to obtain information: the need to provide detailed information on the progress of an administrative proceeding or on services available; the need to provide clear guidance on the obligations that the natural or the legal persons must meet and the documents they need to submit when they are dealing with a public institution; obtaining timely information about the personal situation of the natural and the legal persons; the existence of a common database that can be accessed easily; an efficient communication between the departments of public institutions, but also between the public institutions (Magnini et al., 2000, pp. 1-2).
- The presence of the corruption in different forms in the bureaucratic institutions. This effect of the bureaucracy is the worst because it has a major impact on how local business people, and potential foreign investors will perceive the image of Romania. Regarding the corruption perception index in 2012 Romania was situated on the 66th place out of 176 countries analyzed with a score of 44 points out of 100 points (<http://www.transparency.org.ro>). This situation does not encourage the business men to work in Romania. Thus, by reducing bureaucracy can be reached a low level of the corruption.
- The lack of access to education for the people in deprived areas. It is obvious that the role of education is extremely important and that is why Romania is trying to increase the access to higher education forms (Badea, Rogojanu, 2012, p. 137). Unfortunately to solve these problems we face bureaucratic barriers. In this case it should be noted that to have a healthy business

environment it is important to invest in education. An entrepreneur can not maintain himself on the market if he doesn't have studies in the field in which he operates.

- The bureaucrats behavior (employees of public institutions) that often hinder the activities of the entrepreneurs. In this case we can talk about the lack of interest of public officials in carrying out their characteristic activities because of various reasons: lack of motivation, lack of education and training, daily routine and conservatism (reluctance on everything new in the field) and not least the self-interest which in many cases does not coincide with their duties. The bureaucratic behavior may play an important role in some situations, because they are in direct contact with the external environment (citizens, business men, potential investors).

Therefore, It can be seen that the bureaucracy and its effects play an important role in the business environment in Romania. Many entrepreneurs are influenced in terms of investment they want to do in a country and the role that may have the bureaucratic phenomenon over that country. Therefore, to have a competitive advantage compared to other countries in the region to attract investment and foreign or domestic investors, Romania must find an answer to the problems posed by bureaucracy and its effects.

Case study: the role of bureaucracy in the decision on opening a business in Romania by young people

To observe the role and the effects of bureaucracy on the decision of opening a business by the young people in Romania it was made a questionnaire on a sample of 100 students from the Academy of Economic Studies, Faculty of Economics.

The questionnaires were conducted among the students from the third year and masters, aged between 21 and 34 years. There were selected the young people from this category because they are better anchored in the Romanian economic realities. Most respondents have a job (68% of respondents) and most of the respondents are from the urban areas (98% of respondents).

In terms of opening a business in Romania or abroad, the majority of respondents want to do this in our country. It can be seen from the graph in Figure 1 that 94% of young people want to open a business in Romania, unlike the 6% who will not want to do this.

It can be seen, in this case, a clear trend of young respondents to invest in our country. This result may be due to the knowledge of the local business environment and its implications, so we should take that opportunity and we

should be given the necessary conditions for future young entrepreneurs to develop their business.

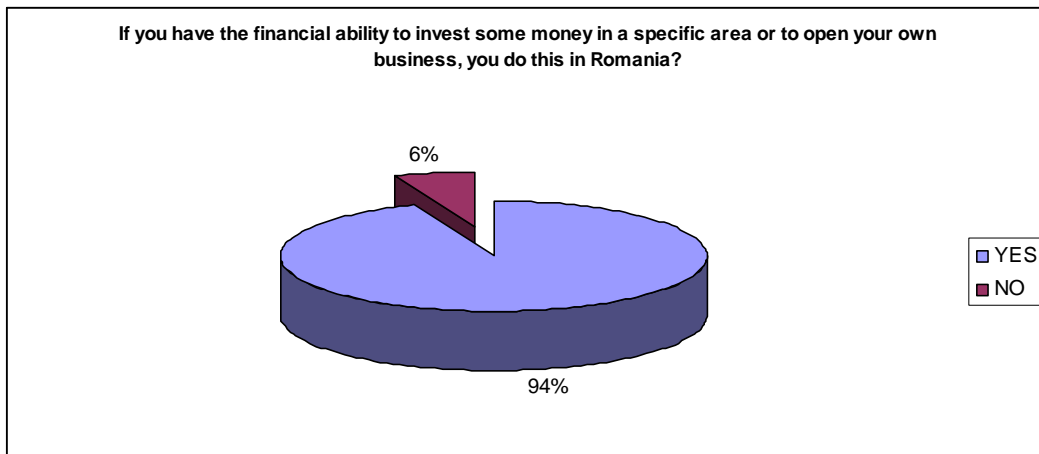


Figure 1. *Opening a business in Romania*

In the table below there have been analyzed through a questionnaire the main obstacles that the young people can observe in starting a business in Romania. They can choose from five possible answers depending on their importance. In this case respondents had to rate from 1 to 5 - depending on the importance they attach to (1 most important and 5 least important) - the main obstacles to starting a business.

After analyzing the results (as shown in Table 1) there have been observed the following results:

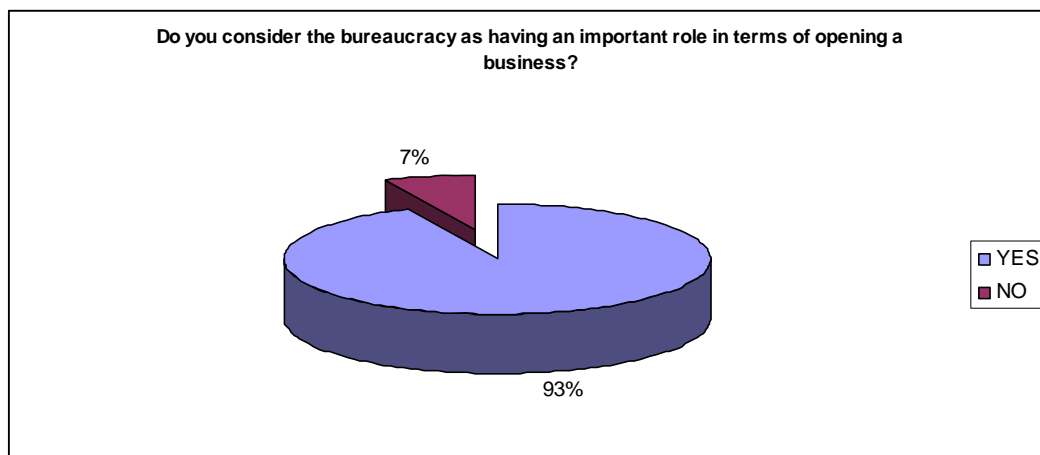
- According to the respondents the main obstacles to start a business are the bureaucracy with 38% and the corruption with 36%;
- The fiscality is ranked third in importance by 18%;
- In the case of the infrastructure and the political instability can see that there are on the last two places in terms of the problems that young people may encounter when they want to start a business (the infrastructure with 3% and the political instability with 5%);
- However, in the case of the infrastructure we can observe that it has a high percentage, namely 34%, of the third variant as importance regarding the issue of opening a business.

Table 1. *The main obstacles to start a business in Romania*

Which are the main obstacles in opening a business in Romania?					
Bureaucracy	1	2	3	4	5
	38%	30%	17%	10%	5%
Corruption	1	2	3	4	5
	36%	32%	13%	15%	4%
Infrastructure	1	2	3	4	5
	3%	11%	34%	26%	26%
Fiscality	1	2	3	4	5
	18%	22%	21%	27%	12%
Political instability	1	2	3	4	5
	5%	5%	15%	22%	53%

Regarding the role that the bureaucracy is having in the start of a business by young people we can see the following results: 93% of respondents were of the view that the bureaucracy has an impact on this decision and makes the process of opening a business to be very difficult, while only 7% felt that the bureaucracy has no role in this case.

In the present case it can be seen the important role that is having the bureaucratic phenomenon among young people when they are willing to open a business in a particular field.

**Figure 2.** *The role of bureaucracy in opening a business*

In the table below there have been analyzed through a questionnaire the main negative effects of bureaucracy that the young people can observe in starting a business in Romania. They can choose from five possible answers depending on their importance. In this case respondents had to rate from 1 to 5 – depending on the importance they attach to (1 most important and 5 least important) – which are the negative effects of bureaucracy in starting a business.

After analyzing the results (as shown in Table 2) there have been observed the following results:

- the respondents believe corruption is the most important negative effect of bureaucracy with 45%, followed at quite a big distance by the others (lack of transparency with 11% as the first variant and with 27% as the second variant, the misinformation with 19% as the first variant and with 23% as the second variant, the lost time with 11% as the first variant and with 15% as the second variant, the behavior of bureaucrats with 14% as the first variant and with 23% as the second variant);
- it can be seen that, besides corruption, respondents felt that the misinformation together with the lack of transparency and bureaucratic behavior are important negative effects of bureaucracy that are worth taking into account in the decision of the young people for opening a business.

Table 2. *The main effects of bureaucracy in opening a business*

Which are the main negative effects of the bureaucracy regarding to open a business?					
	1	2	3	4	5
Corruption	45%	12%	23%	13%	7%
Lack of transparency	1	2	3	4	5
	11%	27%	28%	22%	12%
Misinformation	1	2	3	4	5
	19%	23%	18%	23%	17%
Time lost	1	2	3	4	5
	11%	15%	20%	19%	35%
The bureaucrats behavior	1	2	3	4	5
	14%	23%	11%	23%	29%

Through the question from Figure 3 we wanted to see the role that the bureaucracy it has on the behavior of the bureaucrats. Following responses has been observed that young people consider in proportion of 98% that bureaucracy plays an important role on the abusive behaviour of the civil servants, as opposed to only 2% of those who considered the bureaucracy as haven't any important role in this case.

After there were analyzed the results it can be concluded that excessive bureaucracy of public institutions lead to abusive behavior of public servants. Here we can talk about the public informations and how there are transmitted and the access of business men to this informations. When the business men are receiving incomplete information from public institutions we can observe many negative effects on the business environment (lack of investors, no possibility of adequate market research, bankruptcy, etc.).

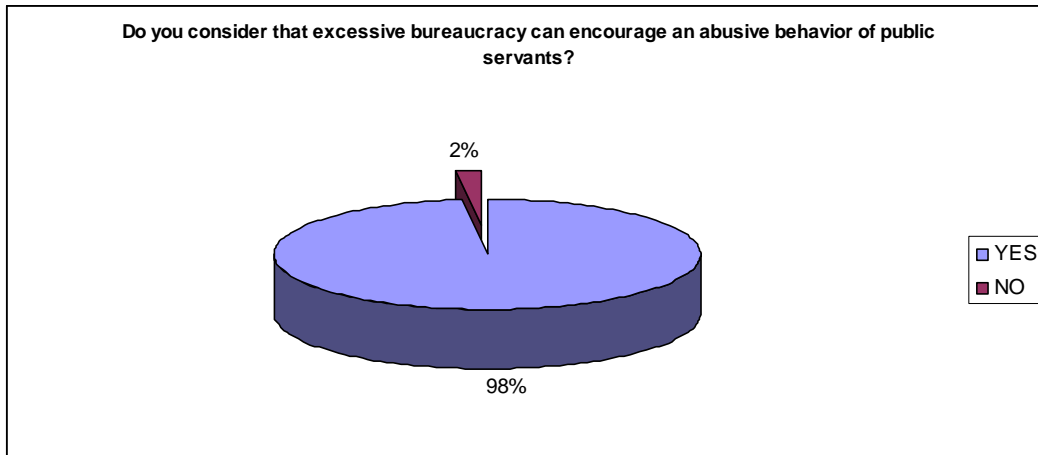


Figure 3. *The effect of bureaucracy on the behavior of public servants*

Through this question we wanted to observe the effects of bureaucracy on Romania's image among potential investors. It was found that 97% of respondents felt that the bureaucracy and its effects affect Romania's image among potential investors, and the remaining 3% did not feel that the bureaucracy plays an important role in this case.

In conclusion the Romania's image is suffering in front of the investors and the future entrepreneurs because of the bureaucracy and its effects that are making the economic activities not to be held in optimal conditions.

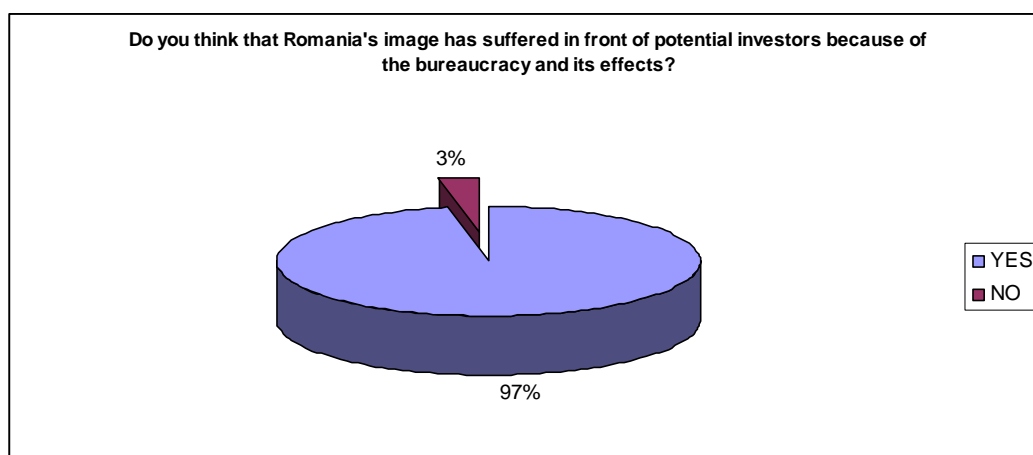


Figure 4. *The effect of bureaucracy on Romania's image among potential investors*

Trough the last question we wanted to know the solutions that the young people (people surveyed) can see to eliminate or to reduce the negative effects of bureaucracy. Among the solutions proposed by respondents there are included:

- implementation of a efficient electronic systems (a performant informatic system);
- increased transparency;
- a unique office;
- better legal basis;
- a closer supervision of the civil servants and a better motivation that can help to eliminate corruption;
- logistical improvements;
- reducing the bureaucratic hierarchy;
- providing clear and accurate informations;
- attracting well-trained personnel and motivated to work in public institutions;
- reducing the number of documents required to open a business;
- a more efficient communication between state institutions.

It can be seen that the solutions proposed by the respondents are relevant and some of them can get to be a solution in the future.

Conclusions

Following the analysis made on the basis of the questionnaire it has been observed that the bureaucracy and its negative effects play an important role in the decisions that the young people can take on the development of some business domains in Romania.

The problems created by the bureaucracy affects attracting investors in Romania and makes difficult in most cases the development of new business opportunities. By eliminating these problems young people may be more motivated to try to start their own business and so the economy could be helped to go on an growing trend.

In conclusion it was observed that the business environment in Romania and entrepreneurs are affected in different ways by the effects generated by the bureaucratic phenomenon that is always present in public institutions and everything related to them. Because of this it is necessarily to found a permanent solution to reduce or even eliminate the negative effects of bureaucracy on business environment.

References

- Badea, L., Rogojanu A. (2012). "Controversies concerning the connection higher education - human capital - competitiveness", *Theoretical and Applied Economics*, No. 12
- Bettis, R.A., Hitt, M.A. (1995). "The new competitive landscape", *Strategic Management Journal*, 16
- Dobrescu, M., Hristache, D., Iacob, S. (2012). "Recent theoretical progress in economics and its impact on economic policy", *Procedia Social and Behavioral Sciences Journal*, Elsevier, The World Conference on Business, Economics and Management (BEM-2012), Antalya, Turkey
- Landstrom, H. (2005). "Pioneers in entrepreneurship and small business research", *Springer Science + Business Media*, Inc. Boston
- Magnini, B., Not, E., Stock, O., Strapparava, C. (2000). "Natural language processing for transparent communication between public administration and citizens", *Artificial Intelligence and Law*, *Kluwer Academic Publishers*
- Minciu, R., Pădurean, M., Popescu, D., Hornoiu, R. (2012). "Demand for Vacations/Travel in Protected Areas – Dimension of Tourists' Ecological Behavior", *Amfiteatrul Economic*, No. 31
- Minciu, R., Popescu, D., Pădurean, M., Hornoiu, R., Băltărețu, A. (2010). "Commercialization of holidays in the protected natural areas - form of the sustainable development in tourism", *Amfiteatrul Economic*, No. 27
- Swedberg, R. (1998). *Max Weber and the Idea of Economic Sociology*, NJ: Princeton University Press, Princeton
- Swedberg, R. (2000). *Entrepreneurship, The Social Science View*, Oxford: Oxford University Press
- Weber, M. (1978). *Economy and Society: An Outline of Interpretive Sociology*, University of California Press, New Ed edition
- <http://www.curierulnational.ro>
- <http://www.transparency.org.ro>