



BUSINESS DEMOGRAPHY IN ROMANIA: A SUMMARY OF BUSINESS TRENDS (1999-2005)

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Abstract

This paper presents a brief review of business demographics in Romania for the period 1999 – 2005. Using our detailed data we examine the main trends concerning business creation rates and its regional dynamics. Our results reveal dissimilar business creation rates amongst Romanian regions. More precisely, Bucharest and the Capital region, as well as Western region show the better economic performance, in terms of business creation rates, gross value added as well as unemployment; whereas the poorest economic results are reported for the Southern regions. In addition, we find that business exit rate experienced a decreasing rate, a fact that may lead to a higher business survival probability.

Keywords: Transition economy, business creation

1. Introduction

In Romania, as for the rest of the former European communist countries, the breakdown of the communist regime in 1989 marked a historical event which was characterised by a severe and widely unexpected decline of economic

activity, which was then followed by a phase of rapid restructuring, technological catching-up, and opening of the economies roughly since the mid-nineties. This led to a rapidly process of restructuring where Romania faced new challenges as well as opportunities, mainly represented by the integration into the European Union in its last enlargement process.

Given the new economic scenario set in Romania since 2006, one of the key factors in driving economic development is to understand the key business demographics and trends in the country and its regions. A recent OECD study (Bartelsman, et al., 2003) provides evidence that a large proportion of firms in a given market (nearly 20%) are either recent entrants or will close during the year¹. Nevertheless, as indicated by Davidsson, et al. (1994), Storey (1994) and Birch (1997), the segment of small businesses that effectively create jobs in an economy is very small (3% - 5%), and these firms are relatively young and

¹ The countries considered in this study are USA, Canada, UK, Germany, France, Italy, Denmark, Finland, The Netherlands and Portugal.



showing a rapid expansion in their youth.

As a result, in this paper we aim to provide an in-depth description of business demographics in Romania for the period 1999 – 2005. In addition, and using detailed regional data provided by the Centre for Entrepreneurship and Business Research (CEBR), we attempt to increase our understanding about the basic business creation trends all along Romanian regions.

2. Data

2.1 Data from the Centre for Entrepreneurship and Business Research (CEBR)

Our main data source to carry out this study comes from the Romanian Centre for Entrepreneurship and Business Research (CEBR) for the period 1999 – 2005. The CEBR is an organisation that promotes and develops research in the fields of entrepreneurship and business economics in Romania. The database provided by the CEBR comprises information for more than 600,000 companies in Romania. An important characteristics of the data from the

CEBR lies on the consideration of surviving and non-surviving firms, a fact that permits us to study trends in business creation, as well as to examine those structural factors that exert an effect on business creation and productivity.

Data was grouped in regions following the criteria established by the European Union (Nomenclature of Territorial Units for Statistics, NUTS). Based on this classification, Romanian counties are grouped in 8 regions as follow: 1) Capital (Bucharest and Ilfov), 2) Centre (Alba, Brasov, Covasna, Harghita, Mures and Sibiu), 3) West (Arad, Caras-Severin, Hunedoara and Timis), 4) North-west (Bihor, Bistrita-Nasaud, Cluj, Maramures, Satu-Mare and Salaj), 5) North-east (Bacau, Botosani, Iasi, Neamt, Suceava and Vaslui), 6) South (Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova, Teleorman), 7) South-west (Dolj, Gorj, Mehedinti, Oltenia and Valcea), and 8) South-east (Braila, Buzau, Constanta, Galati, Tulcea and Vrancea).

Table 1 presents the number of active companies operating in Romania by regional, whereas Table 2 shows the



proportion of active companies by region for the period 1999 – 2005.

From the descriptive we observe that the Capital region, and especially Bucharest, has the largest proportion of firms in the country in 2005 (94,220 and 101,379 enterprises in Bucharest and the Capital region, respectively).

For 2005, Bucharest concentrates 20.26% of the total active enterprises in Romania

In addition, it can be seen that the relative weight of this region has increased during the period under analysis (from 19.12% in 1999 to 20.26% in 2005). Other regions that experienced an increase in the proportion of firms between 1999 and 2005 are the Western region (from 9.16% in 1999 to 9.79% in 2005), the North-western region (from 13.55% in 1999 to 13.71% in 2005), and the Centre region (from 12.33% in 1999 to 12.36% in 2005).

Table 1. Number of Active Enterprises in Romania for the period 1999 – 2005

	1999	2000	2001	2002	2003	2004	2005
Bucharest	63,314	67,545	71,536	71,614	77,910	86,078	94,220
Capital	65,260	69,816	74,286	75,808	83,119	92,228	101,379
Centre	40,848	42,416	44,165	44,537	47,950	52,657	57,498
West	30,340	31,679	32,415	33,280	36,677	40,886	45,548
South	39,378	40,636	40,446	40,102	43,228	47,145	51,330
South-East	45,977	47,642	48,324	48,614	52,015	55,929	59,337
South-West	28,206	29,047	29,615	29,199	31,817	34,304	37,360
North-East	36,312	37,577	38,421	39,175	41,757	45,414	48,946
North-West	44,882	46,715	48,700	50,694	52,999	57,941	63,755
Overall	331,203	345,528	356,372	361,409	389,562	426,504	465,153

Regional distribution is based on the NUTS criteria. Source: Self-devised from CEBR datasets.



Table 2. Proportion of Active Enterprises relative to the Total Number of Active Firms for the period 1999 – 2005

	1999	2000	2001	2002	2003	2004	2005
Bucharest	19.12%	19.55%	20.07%	19.82%	20.00%	20.18%	20.26%
Capital	19.70%	20.21%	20.85%	20.98%	21.34%	21.62%	21.79%
Centre	12.33%	12.28%	12.39%	12.32%	12.31%	12.35%	12.36%
West	9.16%	9.17%	9.10%	9.21%	9.41%	9.59%	9.79%
South	11.89%	11.76%	11.35%	11.10%	11.10%	11.05%	11.04%
South-East	13.88%	13.79%	13.56%	13.45%	13.35%	13.11%	12.76%
South-West	8.52%	8.41%	8.31%	8.08%	8.17%	8.04%	8.03%
North-East	10.96%	10.88%	10.78%	10.84%	10.72%	10.65%	10.52%
North-West	13.55%	13.52%	13.67%	14.03%	13.60%	13.59%	13.71%

Regional distribution is based on the NUTS criteria. Source: Self-devised from CEBR datasets.

To the contrary, we observe that Southern, South-eastern and South-western regions showed a decrease in their relative business participation. South-eastern region exhibited the largest decrease between 1999 – 2005 (8.11%), whereas the decrease in the proportion of businesses in Southern and South-western regions stands at 7.19% and 5.69%, respectively. This result only indicates that in these regions business creation is less dynamic, as compared to those regions that increased their relative weight relative to the total number of businesses.

2.2 Data from European Sources

In addition, a second set of demographic variables was obtained from EUROSTAT datasets: unemployment and population density. In the case of the former, this variable allows us to examine whether or not regional trends in business creation are linked to employment necessity. From the descriptive, we observe that, according to EUROSTAT criteria, mean unemployment rate in Romania in 2005 is 7.27% (7.38% for the period 1999 – 2005). Table 3 shows us that Northern regions (North-east and North-west), Bucharest and the Western region have the lowest unemployment rate in 2005, 6.17%, 6.10%, 6.80% and 7.03%, respectively. On the other hand, Southern (9.09%) and South-eastern



(9.34%) regions present the highest level of unemployment for the same year.

Table 3. Economic and demographic variables for the period 1999 – 2005

Region	<i>Unemployment rate</i>		<i>Population density (per square km)</i>	
	<i>1999</i>	<i>2005</i>	<i>1999</i>	<i>2005</i>
Bucharest	5.8%	6.80%	8,646.30	8,423.20
Capital	5.6%	7.70%	1,283.60	1,259.40
Centre	7.4%	8.03%	78.20	75.00
West	6.8%	7.03%	64.30	61.20
South	7.3%	9.09%	104.40	99.60
South-East	7.7%	9.34%	94.50	91.30
South-West	5.0%	7.68%	84.80	81.00
North-East	7.5%	6.17%	106.10	103.40
North-West	7.1%	6.10%	84.60	81.30
Romania	6.90%	7.27%	97.70	94.10

Regional distribution is based on the NUTS criteria. Self-devised from EUROSTAT.

Concerning population density, our data reveals the Romanian immigration trend experienced during the last decades, where for 2006 nearly 550,000 Romanians immigrated to Italy (New York Times, 2007) and more than 350,000 live in Spain (Spanish Ministry of Labour, 2006). We observe that population density decreased in all Romanian regions.

The mean decrease in Romanian population density is 3.68% for the period 1999 – 2005, and the Western region showed the highest decreased (4.82%). Population in the Capital region only decreased by 1.89%, however, in the case of Bucharest this rate stood at 2.58% (Table 3).



3. Results

3.1 Trends in Business Creation

In this section we present our results concerning the evolution of business creation in Romania. Table 4 shows data on business entry and exit available from the CEBR datasets. The figures presented cover the period 1999 – 2005.

Gross birth rates and exit rates are expressed as annual variation rates, and the difference between these two rates corresponds to the net birth rate, i.e., the development in the total stock of enterprises in Romania.

In Romania, the Annual Net Business Creation Rate was 4.48%.

Between 1999 and 2005, business creation was more dynamic in Bucharest and the Capital region, as well as in Western and North-western regions

Table 4. Gross and Net Rates of Business Creation in Romania
for the period 1999 – 2005

Region	Gross change in the number of firms		Number of exits		Net change in the number of firms	
	Total Gross Entries	Annual birth rate	Total Exits	Annual exit rate	Total Net entries	Annual Net birth rate
Bucharest	32,637	8.45%	17,815	3.24%	14,822	5.21%
Capital	38,168	9.58%	20,037	3.44%	18,131	6.14%
Centre	17,561	7.11%	7,941	2.35%	9,620	4.76%
West	15,737	8.56%	6,247	2.43%	9,490	6.13%
South	12,403	5.22%	6,840	2.21%	5,563	3.00%
South-East	15,228	5.47%	9,569	2.60%	5,660	2.86%
South-West	9,376	5.49%	5,160	2.30%	4,216	3.19%
North-East	13,820	6.30%	6,797	2.31%	7,023	3.99%
North-West	19,642	7.24%	8,613	2.30%	11,030	4.94%
Romania	141,935	7.07%	71,203	2.59%	70,732	4.48%

Regional distribution: is based on the NUTS criteria. Source: Self-devised from CEBR datasets.



The development trend during the period 1999 – 2005 indicates entrepreneurial dynamism in most Romanian regions. For the period under analysis we account for nearly 142,000 new businesses, where 70,732 survived in their corresponding markets. In the case of Bucharest (and the Capital region), we observe some signals of intense competition, since this region (Capital) shows an annual gross birth rate of 9.58%, however, on average only 6.14% per year survive to market competition. The Western region also presents an intense business creation rate (6.13% per year), and similar to the Capital region, the high exit rate indicates the potential presence of intense market competition in this geographical area².

² This result should be taken with some caution, since the variations in the net business creation rate does not fully explain business creation trends. There could be other factors such as mergers and changes in activity registration codes that might affect our results. Unfortunately, we cannot take this into account in our study because data is not available.

To the contrary, regions that exhibit as less intense business creation dynamics are located in Southern Romania: South-eastern region shows the lowest annual net birth rate (2.86%), whereas Southern and South-western regions present similar figures (3% and 3.19%, respectively).

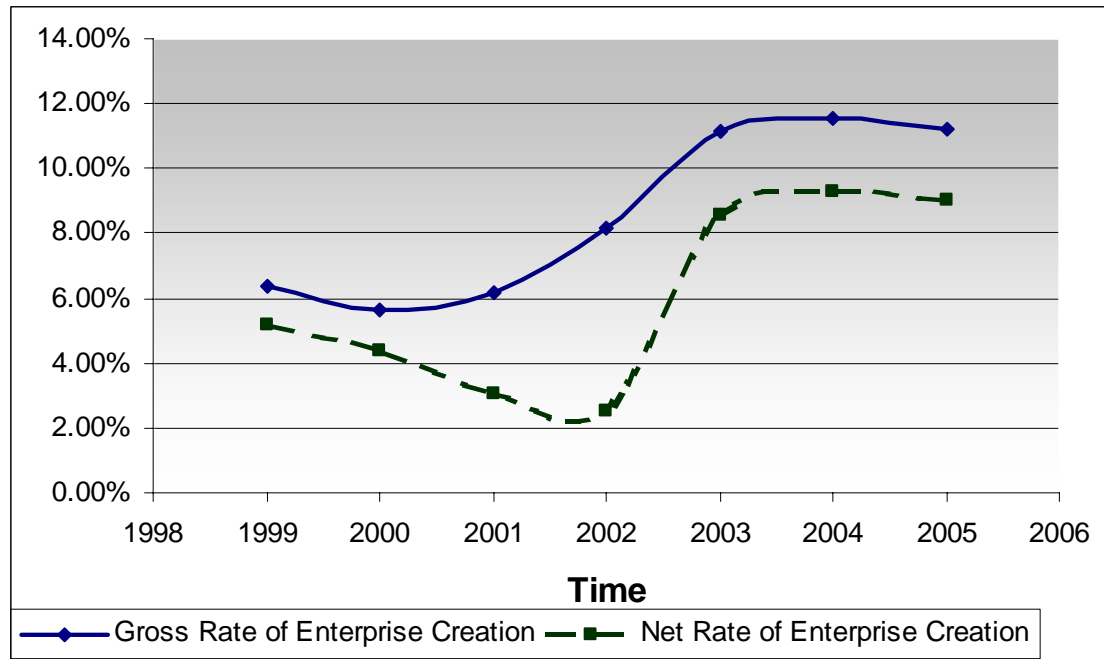
We also observe an interesting feature in the business creation trends in Romania. Despite of gross birth rate shows as less dynamic since 2003, we notice that business exit rate decreases, especially after 2002 where we report a mean exit rate of 6% to 2.33% in 2005 (Figure 1). Consequently, our findings about net birth rate could indicate that business creation and development is concentrated in the Capital and Western regions.

The Enterprise Exit Rate in Romania has decreased from 6% in 2002 to 2.33% in 2005.

Between 1999 and 2005, the Annual Business Exit Rate in Bucharest was 3.34% (3% in 2005)



Figure 1. Gross and Net Rates of Business Creation in Romania
for the period 1999 – 2005



Source: Self-devised from CEBR datasets.

At this point, we remark that in order to obtain a more robust conclusion on this issue, we have to take into account the population effect. To attain this, we know turn to examine whether or not net business growth is more intense in more populated areas. Lafuente, *et al.* (2007) argue that business creation is traditionally linked to urban areas, since urban centres offer greater labour market supply, greater provision of non-traded inputs, easier and cheaper access to markets, greater availability of complimentary services, better

infrastructures, and greater volumes of demand (page 781). Nevertheless, improvements in transport infrastructure, communication, and information technologies have brought about an important reduction in the physical and psychic distance separating rural and urban areas.

Consequently, we evaluate business creation controlling for population density. Hence, we introduce a new variable in the analysis: business density.



This variable reflects at the regional level, the proportion of total enterprises relative to the total population. Our findings confirm that in Bucharest, the Capital region and the Western area business creation is more dynamic (Table 5). Moreover, this result could indicate that these areas are more dynamic when it comes to entrepreneurial activities, as compared to the rest of Romania.

Enterprise Density has increased in Romania from 1.53 firms per 100 inhabitants in 2002 to 2.20 firms per 100 inhabitants in 2005

Similar to that found in Table 4, results in Table 5 present some evidence that Southern regions are less dynamic in what concerns business creation.

In addition, we notice that, when comparing the results for Bucharest and Romania, the enterprise density gap widen between 1999 – 2005 (from 1.85 in 1999 to 2.87 enterprises per 100 inhabitants in 2005). We confirm that despite the increase in infrastructure investments undergone by different entities (local, national and European), enterprise density in Bucharest still grows more rapidly than in the rest of Romania (Figure 2).

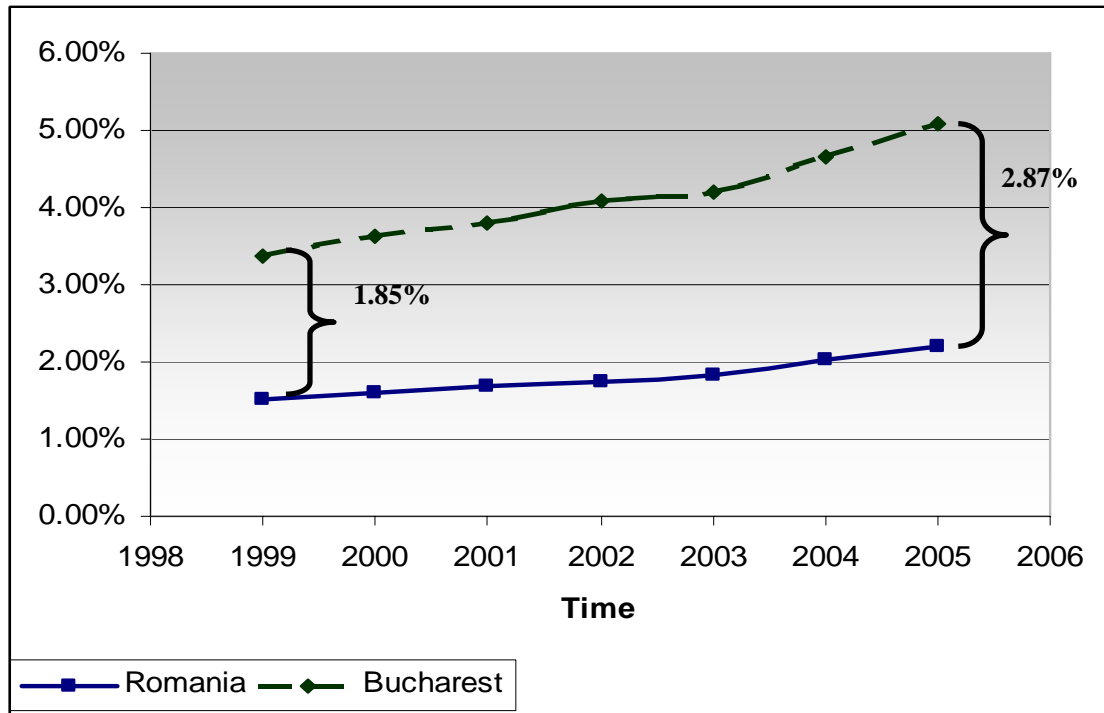
Table 5. Enterprise Density ^(a) in Romania

Region	<i>1999</i>	<i>2005</i>	<i>Annual variation rate (1999-2005)</i>
Bucharest	3.37%	5.07%	7.19%
Capital	3.01%	4.73%	8.16%
Centre	1.61%	2.32%	6.27%
West	1.56%	2.40%	7.69%
South	1.16%	1.56%	4.97%
South-East	1.61%	2.17%	4.95%
South-West	1.20%	1.64%	5.23%
North-East	0.98%	1.35%	5.43%
North-West	1.63%	2.37%	6.53%
Overall	1.53%	2.20%	6.34%

Note: (a) Enterprise density is the ratio of total enterprises to the total population. Regional distribution is based on the NUTS criteria. Self-devised from CEBR datasets and EUROSTAT.



Figure 2. Enterprise Density in Romania and Bucharest for the period 1999 – 2005



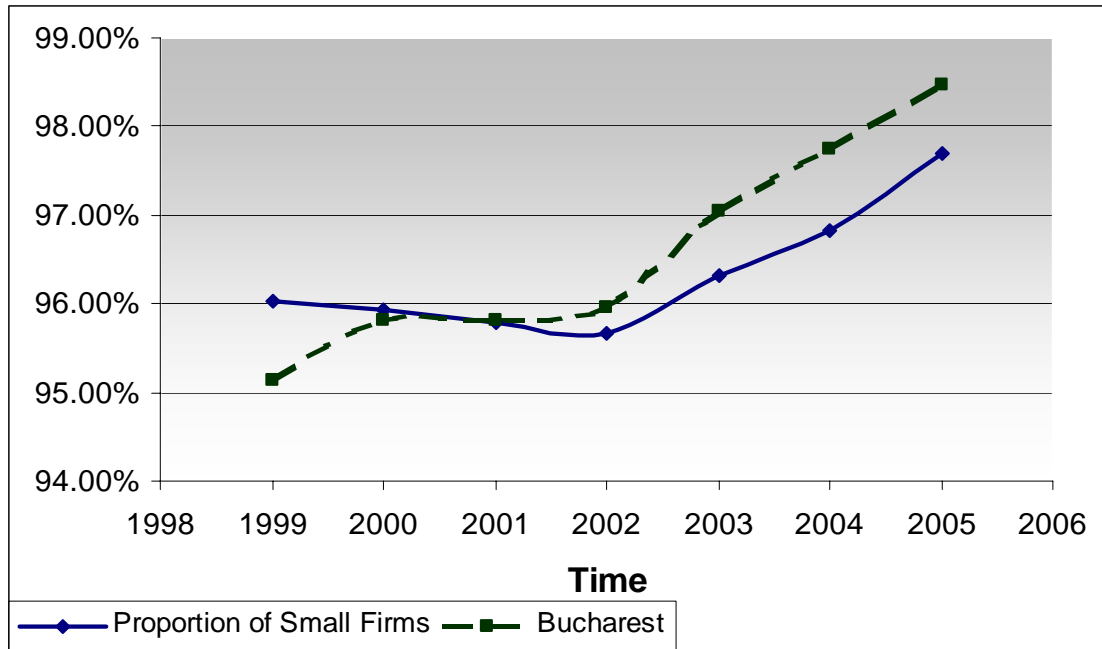
Source: Self-devised from CEBR datasets and EUROSTAT.

At this point, the next question rising is whether business creation rates are mainly due to the birth of micro and small businesses. From Table 6 it can be seen that in 1999 Bucharest showed the lowest proportion of small firms.

This result goes in line with traditional views that capital cities capture the majority of large companies, mainly because of the presence of better infrastructure and transportation systems, as well as greater market demand.



Figure 3. Proportion of Small Firms in Romania and Bucharest for the period 1999 – 2005



Source: Self-devised from CEBR datasets.

Nevertheless, we can also observe that, when comparing the results for 1999 and 2005, the proportion of small businesses increased in all Romanian regions.

Bucharest exhibited the largest increase in this ratio, which provides some support to our argument about the presence of a more intense business dynamic in Bucharest than in the rest of Romania (Figure 3).

4. Conclusions

Albeit the upward trend researching Eastern European economies, little is known about business demographics in Romania. Using a robust and detailed dataset from the Centre for Entrepreneurship and Business Research (CEBR) for the period 1999 – 2005, we carry out an preliminary analysis of business demographics in Romania, paying special attention to



business creation rates at the regional level.

Despite of the positive overall result in what concerns business creation in Romania, our findings reveal that, at the regional level, business dynamics are very dissimilar. Bucharest, the Capital and Western regions exhibit the highest rate of business growth and gross value added. In addition, we find that exit business rate experiences a decreasing rate, a fact that leads to a higher business survival probability.

This paper gives support to a growing number of theoretical works that highlight the need to account for regional distinctiveness when implementing formal support policies. Hence, regions with different informal institutional frameworks will react differently to identical formal institutions and policies.

This opens up a line for future research, where new studies should attempt not only to further explore the observed regional differences in business creation rates, but also to enrich the analysis by examining from an econometric perspective whether Romanian regions are subject to convergence.

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