

PERFORMANCE AND UNDER PERFORMANCE OF ROMANIAN COMPANIES. PUBLIC ENTERPRISES

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Abstract:

For several quarters Romanian economy recorded significant increases in gross domestic product, some of these values are among the highest in the European Union. However, at the level of ordinary citizens, these increases are not observable. One of the reasons why this discrepancy occurs between statistics and everyday reality is the disappointing performance of companies. Unfortunately this performance affects a significant part of companies, whether small, medium or large, whether private or public. Financial discipline reduced and indebtedness relative to their ability, or low liquidity, and personnel costs correlated with low productivity are all factors that affect the performance, erodes their competitiveness and absorbs some of the added value in the viable economy.

Keywords: *companies, performance, private companies, public companies*

J.E.L. Classification: *L26*

In the last two years Romania recorded significant GDP growth rates, some values being among the highest in the European Union, and at the end of 2014 quarterly GDP (measured in 2008 prices) almost reached the level of before the crisis. Nevertheless it seems that these values recorded by official statistics seem not to be visible in the daily life of citizens. My opinion is that this phenomena is explained by modest performance of enterprises in Romania, which are found in waiting regarding investments. Thus, the gross forming of fixed capital had negative contribution to GDP forming in 16 quarters out of the total of 24 quarters that have passed since the crisis began.

Table no. 1. Dynamics of Romanian GDP (%)

Date	GDP			Contribution at the forming of GDP, (by request) - %			
	Annual variation (gross series) - %	Quarterly variation (seasonally adjusted series) - %	Average prices year 2008 - bln.lei	Total final consumption	forming of gross fixed capital	Changes in inventories	Net export
2008Q1	9,1	3,9	164,7	12,93	4,43	-	-9,13
2008Q2	10,7	2,5	168,8	9,18	4,08	-	-3,92
2008Q3	10,6	0,5	169,7	10,47	0,98	-	-2,20
2008Q4	4,6	-2,4	165,6	-2,25	0,81	-	4,35
2009Q1	-6,3	-6,2	155,3	-8,1	0,6	-8,2	9,5
2009Q2	-8,3	-0,3	154,9	-8,9	-9,2	0,0	9,4
2009Q3	-7,9	0,7	155,9	-6,6	-11,1	3,1	7,5
2009Q4	-5,9	-0,3	155,5	-3,2	-9,6	1,8	4,6
2010Q1	-1,7	-1,1	153,7	-3,9	-6,9	9,0	-0,3
2010Q2	-0,2	0,5	154,5	-1,2	-1,9	4,7	-2,1
2010Q3	-1,4	-0,7	153,5	-0,7	-5,0	3,0	0,6
2010Q4	-0,1	1,0	155,0	-1,6	-1,1	1,4	0,6
2011Q1	0,5	0,1	155,1	-0,7	0,4	0,1	1,7
2011Q2	0,3	0,1	155,2	-0,8	1,3	1,4	-0,7
2011Q3	2,7	1,4	157,4	2,4	3,1	0,1	-1,5
2011Q4	0,5	-1,1	155,6	1,5	1,9	-1,0	-0,8
2012Q1	0,2	0,1	155,7	1,1	0,8	-2,3	0,8
2012Q2	2,1	1,9	158,6	1,6	-0,1	-1,1	1,7
2012Q3	-0,5	-1,3	156,5	0,9	1,2	-3,4	0,8
2012Q4	0,8	0,1	156,7	0	-1,5	1	1,3

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	Annual variation (gross series) - %	Quarterly variation (seasonally adjusted series) - %	Average prices year 2008 - <i>bn.lei</i>	Total final consumption	forming of gross fixed capital	Changes in inventories	Net export
2013Q1	2,1	1,3	158,7	-0,3	-2,5	0,4	4,5
2013Q2	1,4	1,6	161,3	0,4	-1,8	-1,9	4,6
2013Q3	4,2	1,0	162,9	-0,3	-2,8	3	4,3
2013Q4	5,2	1,1	164,6	0,3	-1,7	2,6	3,9
2014Q1	4,1	0,3	165,2	3,9	-1,4	0,8	0,8
2014Q2	1,5	-0,6	164,1	3,4	-2	-0,4	0,5
2014Q3	3,0	2,1	167,6	3,2	-0,8	0,3	0,3
2014Q4	2,7	0,7	168,9	3,7	0,3	-0,5	-0,9
2015Q1	4,3	-	-	3,7	1,3	0,7	-1,4

Source: NBR – Reports on inflation may, august 2015

Also, exports, which although were behaved very well during the crisis alleviating the decline of GDP, in recent quarters seem to have slowed their potential to sustain, because in the last six quarters for which statistic data exists increases decrease from some few percent values below one percent, or even negative in the last two quarters. So lately sustaining of GDP growth was made by consumption, as before the crisis, but with significantly smaller contributions.

Table no. 2. The composition of the labor force by training level

Date	total	Reduced level	Medium level	high level	productivity/employee
	<i>difference from Q4 2010; thousands persons (s.a.)</i>				Contribution to real GDP dynamics-%
2011Q1	29,5	-26,4	40,9	14,9	-1,5
2011Q2	-138,6	-170,3	-1,3	33,0	-0,2
2011Q3	-169,8	-177,8	-48,4	56,4	1,7
2011Q4	-84,9	-118,7	-44,9	78,7	1,9
2012Q1	-43,6	-140,8	13,9	83,3	4,0
2012Q2	-22,0	-157,1	46,0	89,1	4,9
2012Q3	-21,3	-177,8	46,9	109,7	4,2
2012Q4	13,1	-118,7	18,8	113,0	5,6
2013Q1	-62,8	-154,5	-26,0	117,7	4,3
2013Q2	-68,6	-195,1	-13,1	139,6	3,2
2013Q3	-94,0	-191,9	-48,0	145,9	3,8
2013Q4	-63,7	-169,7	-42,9	148,9	3,9
2014Q1	15,9	0,1	-149,6	165,4	4,1
2014Q2	-29,8	35,4	-231,0	165,8	3,9
2014Q3	-1,7	19,1	-186,2	165,4	3,0
2014Q4	-22,2	39,7	-238,1	176,2	2,0
2015Q1	-134,5	-259,2	-105,1	229,7	1,9
Total	-899,0	-1.963,7	-968,1	2.032,7	-

Source: NBR – Financial stability reports 2015, Eurostat, author's calculations

Investment processes have consequences also in terms of employment; most businesses seem to be uncertain and try to strengthen their productivity gains than to resort to new employment. Thus we see that only in the past four years Romania, in fact businesses in Romania have lost about a million jobs, and this has affected more positions that were occupied by staff with low and medium qualification positions replaced by posts occupied by staff with high qualifications, but unfortunately only a percentage of two-thirds.

So the first conclusion relates to a flawed way of forming GDP, where consumption dominates, a bleak prospect because investments do not support economic development in the medium and long term and, not least, a reduced demand for low and medium skilled labor,

who does not find employment in the country, emigrates, contributing to the development of other countries.

But the value and GDP is realized in enterprises. So it is good to analyze the evolution of the number of enterprises in the economy. Statistical data shows that in 15 years, between the years 2000 and 2014 it increased by 50%, from approximately 400 to over 600 000 businesses in 2014. Of these, 1% are public and 99% are private.

Table no. 3. Number of companies – classified by ownership

Year	majority state-owned companies	companies with majority private capital	Total companies
2000	2.114	406.244	410.358
2001	1.900	400.948	410.358
2002	1.681	408.149	411.832
2003	1.459	449.766	453.228
2004	1.266	495.944	499.214
2005	979	521.456	524.440
2006	835	554.102	556.943
2007	747	605.209	607.963
2008	661	649.465	652.134
2009	685	596.171	598.865
2010	721	595.715	598.446
2011	886	600.659	603.556
2012	893	603.567	606.472
2013	1.008	602.728	605.749
2014	1.045	599.661	602.720

Source: NBR – Financial stability reports 2015, Eurostat, author's calculations

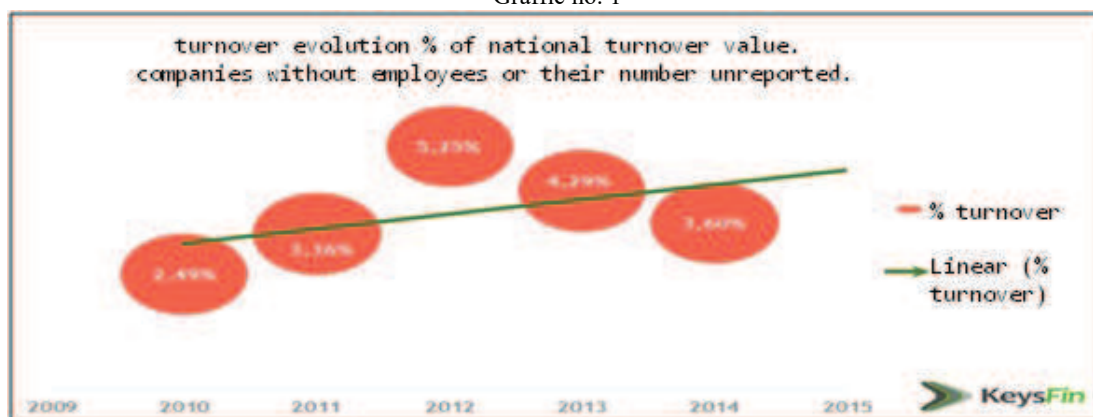
Although at first glance it would seem that Romania has a business environment favorable for entrepreneurship in reality things are opposite. First it should be noted that of the 600 thousand private enterprises, according to an KeysFin analysis, at the Ministry of Finance , in 2014 , last year 115 965 companies were registered that conducted business without any employees or who hadn't declared their employees, beside 116,620 in the previous year (KeysFin, Romania, country of phantom firms! How to make business of millions with companies with no employees, 15 October 2015). Interestingly, according to the same sources, their share is negligible in the total turnover realized by Romanian companies. Thus, the 116 thousand enterprises, so about 20 % of total produced about 3-4 % of the total turnover obtained by the Romanian enterprises.

Less favorable business environment, commercial or financial difficulties makes an increasingly large number of enterprises to exit the market, being radiated. Thus, the number of companies radiated doubled in years of crisis from about 40,000 in the first year of crisis to almost double in 2014. Also, the same financial difficulties made it that yearly, at the same period of time, between 20 000 and 20 thousand enterprises to seek entry into insolvency.

Regarding the founding of new businesses in Romania more than 100 thousand companies are established annually. In the early years of crisis, the number of newly established enterprises increased from about 111 000 annually in 2009 to about 132,000 in 2011, after which the number of start-ups to reduced steeply, reaching around 100 000 in 2014.

Comparing entries on the market, or start-ups, with outputs, or companies radiated and those insolvent, it would seem that a positive balance results, as also confirmed by the dynamics of the total number of enterprises. In reality, about a third of newly established firms carry out activity (at least in the year of setting up), submitting to the financial administration a tax balance sheet.

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Source: <http://www.keysfin.com>

Table no. 4. Evolution of number of start-ups and of insolvency cases

Year	Number of companies newly entered in insolvency	Number of radiated companies	Number of start-ups	Number of start-ups with activity submitting balance sheets
2009	17.776	43.713	111.832	35.289
2010	23.961	43.852	119.048	35.332
2011	22.964	73.244	132.069	46.582
2012	26.759	71.746	125.603	45.208
2013	29.317	80.786	124.816	45.649
2014	20.608	76.483	101.627	42.013

Source: NBR – Financial stability reports 2015, author's calculations

Thus, from the data so far, I think we can say that Romania has a very unfavorable environment for entrepreneurship.

I would also note that if we compare the average data across Romanian financial companies with all data calculated only for insolvent firms we can observe that there isn't a very big difference between them. Also, we can see a deterioration of indicators analyzed.

Table no. 5. The financial health of companies that newly became insolvent in the year prior to the onset of insolvency procedure

Indicator		2008	2009	2010	2011	2012	2013	2014
Recovery term of claims, companies newly entered in insolvency	Number of days	101,42	161,80	191,42	159,50	149,42	153,67	179,23
Recovery term of claims, total economy		82,22	96,46	102,97	100,46	103,24	102,56	100,41
Economic profitability, companies newly entered in insolvency	%	(3,44)	(8,14)	(7,52)	(5,84)	(8,14)	(7,36)	(11,93)
Economic profitability, total economy		3,50	1,69	2,02	2,43	2,44	3,24	3,49

Source: NBR – Financial stability reports 2015

In principle a company asks for insolvency when cashings no longer allow payments and generate losses. On average firms that become insolvent recover claims within 180 days (indicatory was of 100 days at the beginning of the crisis). But the average at the level of economy is not very good, average recovery period is 100 days, the registered value of companies that became insolvent at the beginning of the crisis. Or, the rate of losses increases for enterprises that go insolvent from 3% in 2008 to 12% in 2014. But the average of return on economy is not too gratifying, being around 2-3%.

Table no. 6. Recovery period of claims (number of days)

	2007	2008	2009	2010	2011	2012	2013	2014
micro enterprises	108	112	140	160	169	179	178	184
small enterprises	74	73	87	96	97	97	97	96
Medium enterprises	75	72	84	91	91	95	96	96
SME total	90	89	108	117	119	122	124	125
corporations	78	73	81	86	79	82	78	73

Source: NBR – Financial stability reports 2015

From previous data we find very little of Romanian companies. For example, the number of days of recovery of debts is very high, on average SME recovers its debts at 125 days, more than three months from issue. Maximum is registered by micro enterprises, which recover their debts at 184 days, more than 6 months from issue. Having probably a greater ability to negotiate and customer tracking departments, corporations, or large enterprises record smaller recovery terms (and in decrease), but here also values of 70-80 days, over two months, which is not a gratifying value.

Table no. 7. The aggregate loss of companies with negative net result depending on the type of ownership (nominal value - billion lei)

Year	majority state-owned companies	companies with majority private capital	Total loss
2000	-3,69	-4,70	-8,39
2001	-2,94	-7,02	-9,96
2002	-5,06	-9,02	-14,08
2003	-3,81	-10,91	-14,72
2004	-2,51	-8,86	-11,37
2005	-1,76	-10,17	-11,93
2006	-1,92	-10,49	-12,41
2007	-2,09	-18,89	-20,98
2008	-5,20	-37,01	-42,21
2009	-5,24	-42,81	-48,05
2010	-5,50	-38,03	-43,53
2011	-4,21	-41,09	-45,30
2012	-4,58	-41,22	-45,80
2013	-3,22	-38,80	-42,02
2014	-2,96	-39,12	-42,08

Source: NBR – Financial stability reports 2015

An important issue of Romanian companies is the loss. They have increased continuously, reaching a value of about 45 billion lei. Interestingly, over 90 % of it is generated by private companies.

Table no. 8. Public enterprises in Romania

Owner:	No. of public enterprises (06.2014)	Of which		Incomes (2013, bn. lei)
		Active	Inactive	
Local Authorities	1221	1051	170	10,1
Government, of which: (the most important)	304	247	65	61,8
Managing Authority for State Assets		10		0,16
Energy Department		25		27,6
Ministry of Economy		42		1,28
Ministry of Education		60		0,96
Ministry of Public Finances		8		1,46
Ministry of Communications and Information Society		4		1,60
Ministry of Transport		27		10,51
General Secretariat of Government		9		4,70
Department of Water, Forests and Fisheries		26		1,66

Source: Aurelian Dochia, Dan Paulopol Necula, Georgiana Nichita, Evaluation of implementation of the Emergency Ordinance no. 109/2011, Final Report

In the following I would like to refer to public enterprises, state-owned or state majority, excluding financial companies (CEC and Eximbank), many called by some crown jewels and by others black holes of the economy.

In scripts, Romania has about 1,500 public enterprises, unfortunately about 230 of them are inactive, being either suspended or in insolvency or bankruptcy procedures. From the point of view of the legal organization, most are organized as companies and a minority are autonomous (cf. 115 Aurelian Dochia, Dan Paulopol Necula, Georgiana Nichita, Evaluation of implementation of the Emergency Ordinance no. 109/2011, Final Report).

Public enterprises exist in most European Union states, only that from statistical data analysis it seems that Romanian public sector is one of the largest.

80% are of local interest, subordinated to local authorities: county councils, city councils or municipal councils. The same source (Aurelian Dochia, Dan Paulopol Necula, Georgiana Nichita Evaluation of implementation of the Emergency Ordinance no. 109/2011, Final Report) states that local public enterprises are usually very small, there are hundreds of local public enterprises with less than 100 or even less than 10 employees. Exceptions are those in Bucharest and in several other large cities, where some have more than 1000 employees (the largest being 11,000 employees, Bucharest Autonomous Transportation Direction). Even some public enterprises subordinate to the central government organisms are small (for example the 60 research institutes or training centers and Didactic and Pedagogical Publishing, all under the Ministry of Education and Research). The largest public companies are some businesses of central subordination from the field of energy and natural resources.

Table no. 9. Public enterprises (PE) in European countries OCDE (Year 2009)

Country	No. of PE	Country	No. of PE	Country	No. of PE
Austria	11	Germany	62	Portugal	93
Belgium	8	Greece	82	Slovenia	37
Czech Republic	124	Hungary	359	Spain	152
Denmark	15	Italy	28	Sweden	50
Estonia	54	Netherlands	28	Switzerland	4
Finland	45	Norway	51	United Kingdom	22
France	60	Poland	590	Romania, (2014)	1528

Source:Aurelian Dochia, Dan Paulopol Necula, Georgiana Nichita, Evaluation of implementation of the Emergency Ordinance no. 109/2011, Final Report

Unfortunately, public companies have a low financial performance. The source mentioned above states that public enterprises subordinated to local authorities "have ended 2013 with a consolidated gross loss of 0.47 bn. lei; if we add the operational subsidies from state budgets, loss of public enterprises subordinated to local authorities reached 2.18 billion lei. This loss is not fully compensated by profits from public enterprises subordinated to the central government: excluding current transfers and subsidies from state budgets, state enterprises (local and central) ended 2013 with a consolidated loss of about 2 bn. lei. Public enterprises receive 4.5 bn. lei from the state budget as transfers for investments ". To be noted that the Financial Stability Report 2015 indicates a significantly higher loss for public companies.

Table no.10. Aggregate indicators of central subordination of public enterprises (PE)

Indicator – million lei	Active PE			Inactive PE		
	2012	2013	2014	2012	2013	2014
Number of PE	231	228	232	13	19	67
Turnover	42.754	42.920	33.783	894	981	4.566
Net profit	2.980	4.147	4.518	0	234	943
Net loss	2.883	1.727	1.542	591	1.017	788
Net Result	97	2.420	2.976	-591	-783	156
Net rate of return	0,23	5,64	8,81	-66,15	-79,79	3,41

Indicator – million lei	Active PE			Inactive PE		
	2012	2013	2014	2012	2013	2014
Equity	71.175	75.910	56.447	-1.157	-6.462	9.201
Total assets	154.374	146.563	120.475	2.877	4.536	24.498
Rotation assets	0,28	0,29	0,28	0,31	0,22	0,19
Total debts	45.423	32.913	24.469	3.989	1.064	14.518
Indebtedness	29,42	22,46	20,31	138,66	23,47	59,26
Overdue payments to the budget	8.333	2.838	1.595	170	5.849	6.377
Overdue payments to other creditors	5.365	3.973	1.918	2.699	4.099	5.353
Total overdue payments	13.699	6.811	3.513	2.869	9.949	11.730
The degree of non-payment of debt	30,16	20,69	14,36	71,93	934,77	80,79

Source: Ministry of Public Finance, 2014 Annual Report on the activity of Public enterprises of central subordination where the state owns a majority or full participation

In the 2014 Annual Report on the activities of public companies of central subordination in which the state owns a majority or full participation, developed by the Ministry of Public Finance is stated that in that year a total of 300 public companies of central subordination were functioning in our country, but of those 67 were inactive. The overall analysis of only active central public enterprises do not indicate major performance problems. We can actually appreciate significant increases in terms of profitability, a reduction of indebtedness or a decline in the level of non-payment of debts.

Many non-performance issues arise regarding the 67 central inactive public enterprises: loss, equity, asset efficiency decreasing, increasing indebtedness, non-payment of debt of almost 100% etc.

A lot of underperformances of many public enterprises of central subordination are explained by significant wage costs. To be noted that the highest salaries are paid within the inactive public enterprises.

Table no. 11. Wage costs in public enterprises

Year	PE status	PE number	Employees	Wage costs – thousand lei	Average gross salary - lei	Average net salary - lei
2011	Active and inactive	241	245.253	8.980.581	3.060	2.147
2012	Active	231	237.470	8.393.738	2.946	2.066
	Inactive	13	4.247	166.702	3.271	2.294
2013	Active	228	225.046	8.523.652	3.156	2.214
	Inactive	19	5.874	268.095	3.803	2.668
2014	Active	232	199.576	7.914.381	3.305	2.318
	Inactive	67	11.219	554.472	4.119	2.889

Source: Ministry of Public Finance, 2014 Annual Report on the activity of Public enterprises of central subordination where the state owns a majority or full participation

Analysis of financial flows of public enterprises to the state budget indicates that they are large consumers of budgetary funds, in the last year the ratio being of a leu transferred to the budget to five lei receive from the budget.

Table no. 12. Financial relations of PE with the state budget

Year	Total subsidies and transfers from the state budget – million lei	Dividends and payments actually delivered by PE to the state budget - million lei
2012	8.833,2	1.785,7
2013	6.944,8	1.481,9
2014	7.972,6	1.676,5

Source: Ministry of Public Finance, 2014 Annual Report on the activity of Public enterprises of central subordination where the state owns a majority or full participation

It should be noted that in 2014 the top ten loss-making enterprises had accumulated this amount of 1.400 billion lei, the largest central public enterprises with losses were the two energy complexes, respectively, Oltenia and Hunedoara, followed by Tarom and the Uranium company, those four cumulated losses of 1,200 billion lei.

Table no. 13. Top PE of central subordination with losses

Public enterprise	Loss size in 2014 – thousand lei
Oltenia Energetic Complex S.A.	-693.636
Hunedoara Energetic Complex S.A.	-352.309
National Company of Romanian Air Transport Tarom SA	-110.161
Natinal Company of Uranium SA	-103.435
Romaero SA	-45.030
National Society of Railway Transport SA	-27.161
Romanian Counter-Guarantee Fund SA	-19.496
Hydroenergetic Services Company - Hidroserv S.A	-17.608
Relatex Assets S.A.	-15.783
Administration of State Protocol Patrimony SA	-13.509
Total	-1.398.128

Source: Ministry of Public Finance, 2014 Annual Report on the activity of Public enterprises of central subordination where the state owns a majority or full participation

Conclusions

In conclusion, due galling of investment and hiring processes in most enterprises seem to be uncertainty, are attempting to strengthen their productivity gains than to resort to new employment.

Another conclusion refers to a flawed way of GDP forming, in which consumption dominates, a bleak perspective because investments do not support economic development in the medium and long term and, not least, a reduced demand for medium and poorly qualified labor, that finds no jobs in the country, emigrates, contributing to the development of other countries.

Less favorable business environment to entrepreneurship, commercial or financial difficulties makes a increasingly number of enterprises to be radiated from the market, from the data so far I think we can say that Romania has a very least favorable environment for entrepreneurship.

Unfortunately, a great part of non-performance comes from public enterprises. Thus, these local public enterprises concluded the year 2013 with a consolidated gross loss of 0.47 billion. lei, plus operating subsidies from state budgets, loss of public enterprises subordinated to local authorities reached 2.18 billion lei. This loss is not fully offset by profits from public enterprises subordinated to the central government: excluding current transfers and subsidies from state budgets, state enterprises (local and central) ended 2013 with a consolidated loss of about 2 billion lei. Public enterprises receive 4.5 billion lei from the state budget by transfers for investments.

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