BUSINESS ENVIRONMENT IN BULGARIA AND ROMANIA: A COMPARATIVE ANALYSIS

Juliana HADJITCHONEVA, Ph.D.¹
Angel GEORGIEV, Ph.D.²

Abstract
The business environments in Bulgaria and Romania are discussed and analyzed in a comparative aspect. The paper presents an analysis of the factors influencing the businesses. Both quantitative and qualitative methods of research are applied in order to see the picture of the context in recent years.

Keywords: business context, business economics, business studies

JEL Classification: A100, M210, M100, A100, O100

Introduction
Business environment is closely related to competitiveness. It is acknowledged as a determinant of competitiveness. Environmental improvement is aimed at achieving better quality and productivity.

The environment that affects the performance of economic activity is defined as business environment. Everything that is outside the company, and might affect it, is external business environment (Griffin, 2017). The present paper covers some of the conditions that influence businesses and their development. Generally, these conditions may be political, economic, social, cultural, technological, etc. Society has to create wealth, and it depends on the development of the business environment. Further, it is expected to support productive use and enhancement of investment quality (Porter, 2004). So, a favorable business environment influences the investment activity, the technological development and, the economic growth.

The article aims to present an analysis of the factors influencing the businesses in Bulgaria and Romania taking into account the theoretical perspective and, both type of studies of the business environments, within the framework of the global competitiveness and, specifically purposeful for the present contribution.

Theoretical perspective of the business environment

1 New Bulgarian University, e-mail: jhaditchoneva@nbu.bg
2 New Bulgarian University, e-mail: aivanov@nbu.bg
Iliev (2014) assumes the business environment as the basic characteristic of modern industry and a basic reference for the process of re-industrialization. Kovatchev (1997) analyses the business environment considering three interrelations. They concern mixed market economy, market mechanism, the institutional aspects of the economic development regulation and management in the context of the current economy.

Business itself as a system for transforming resources into products and services determines the business environment (Worthington and Britton, 2006) as it is shown in Figure 1:

Figure 1

Business' transformation system


Business interacts with the environment, and its external and internal factors (Hadjitchoneva, 2015). The external factors represent an environment that exists at two levels: general or contextual, and immediate or operational. The political, economic, social, technological, legal, and ecological contexts, known as PESTLE factors, form the macro business environment. Suppliers, competitors, customers, labor market, financial institutions, trade organizations, trade unions are the mezzo business or industry environment. The internal or micro business environment consists of the conditions and forces within the company (Griffin, 2017). The environment influences the whole transformation chain: the suppliers, the inputs, the company, the outcomes, and the customers (Palmer and Hartley, 2012).

The characteristics of the business environment follow different criteria such as degree of stability that depends on the extent to which its factors have sustainable impact on the management; degree of security of the system that depends on the number of risks and threats; degree of predictability of the system's behavior; degree of dynamism and, complexity (Mihailov, 2011).

According to Ivanchevich, Lorenzi and Skinner (1994) the managers should thoroughly analyze the forces of environment in order to fully utilize the resources. Adapting business to the environment is crucial. The adaptation goes through planning, organizing, controlling and managing strategies. Appleby (1991) and, Worthington and Britton (2006) also emphasize the importance of the
understanding of the relationship between the business entities and the environment. Marinov, Velev and Geraskova (2009) consider the political and legal conditions as an overall political situation, the presence or lack of political stability, the economic legislation and protection of competition, consumers, and the capabilities of the different stakeholder groups. The economic conditions consist in the purchasing power of the population, which depends on such factors as current incomes, savings, prices and opportunities for obtaining credits. Palmer and Hartley (2012) note that “businesses need to keep an eye on indications of a nation’s prosperity”3 such as gross domestic product (GDP). The demographic conditions include population growth, geographical distribution and population mobility, population density, etc. The natural conditions are shortage of raw materials, difficult supply of energy and environmental pollution. Innovations are considered to be technological developments.

So, businesses need to adapt to the environment, but also have an influence and control over their own environment. Baron (2010) divides the environment into market and non-market, pointing out that some businesses achieve good results in both of them. Market imperfections coexist with government imperfections due to the fact that governments and markets may produce wrong decisions. Ivanov and Hadjitchoneva (2014)4 draw the following conclusions regarding the business environment: “The sensitivity of the business environment, whatever it means - institutions, policies, human behavior, technological development to globalization, leads to the fact that changes in the environment are becoming more and more difficult to predict. It is even more difficult to manage it, to focus on stimulating economic development, to solve complex tasks such as employment, deployment and stimulation of entrepreneurial activity by facilitating the regulations it has traditionally been subjected to. More generally, this means modifying the overall regulatory framework and improving regulatory regimes so that businesses can more easily and more responsibly take up their own competitiveness on global markets”. How these theoretical points of views can affect the business environment in Bulgaria and Romania?

Business environment within the framework of competitiveness

As mentioned above, several key macroeconomic drivers are essential for the influence of the business environment on competitiveness. The GDP in Bulgaria fluctuated less in the period 2011 - 2016. In Romania, there were two GDP peaks in 2012 and 2015. The difference between Bulgaria and Romania is in the scale rather than in the principle. The size of the population should be taken into consideration in tight relation with the GDP performance and its scale. The trends are almost the same. It seems that both countries experience the same demographic and regional problems. Thus, the GDP per capita shows practically

3 Palmer and Hartley (2012), p. 10
4 Ivanov and Hadjitchoneva (2014), p. 8
the same picture in both countries (Figure 2). Based on the above data, we can state that the two countries are fully comparable.

**Figure 2**

GDP per capita (USD)

![GDP per capita graph showing data for Bulgaria (BG) and Romania (RO) from 2011 to 2016.](image)

*Source: own compilation based on GCI 2011-2017*

Bulgaria and Romania are economies in transition classified as efficiency-driven economies by the Global Competitiveness Index (GCI). The overall index of Bulgaria and Romania’s competitiveness for the period 2011-2016 is presented in Figure 3.

**Figure 3**

Overall Global Competitiveness Index (GCI) of Bulgaria and Romania for the period 2011-2016

![Overall Global Competitiveness Index graph showing the index for Bulgaria and Romania from 2011 to 2016.](image)

*Source: own compilation based on GCI 2011-2017*

Among the favorable factors of the business environment in Bulgaria is the lowest corporate tax in the European Union\(^6\) and the low operational costs for doing business in the region. Romania reports a significant progress in legislative reforms but they do not lead to impressive progress in its development. Bulgaria and Romania are among the European countries with the highest business investment rate (for non-

---

5 Lower number is better.
6 It is 10 %.

124
BUSINESS ENVIRONMENT IN BULGARIA AND ROMANIA: A COMPARATIVE ANALYSIS

Their business investment rate is recorded to be above 25 %, precisely at 28.8 % for Bulgaria in 2013 and 27.2 % for Romania in 2014. From 2011 there was a gradual improvement of the overall Bulgarian performance till 2016 and Romanian performance till 2015 evaluated on three pillars including basic requirements, efficiency enhancers and innovation and sophistication factors. The progressive trend could be seen in Figure 3 as rank and 4 as score. The countries have exchanged their rankings during the last two years 2016 and 2017 in the IMD World Competitiveness ranking. In 2017, Bulgaria takes position 49 and Romania – 50, but it is difficult to see the drivers for the slightly higher progress of Bulgaria. The direct foreign investments in Bulgaria were increasing up to 2008, then dramatically disappeared after 2008 following the logic of the world financial crisis. The global economic situation influenced the competitiveness performance of both counties.

Figure 4

Overall Score of Bulgaria and Romania of GCI for the period 2011-2016

Source: own compilation based on GCI 2011-2017

The performance of Bulgaria and Romania is relatively better in the second pillar including the efficiency enhancers, then on the first one for the basic requirements. As it could be seen in Figure 5, they are both poor performers in the fields of innovation and business sophistication. Both countries perform relatively well considering the scores (see also Figures 6, 7 and 8) for the macroeconomic environment (Bulgaria’s score is between 4.9 and 5.6 and Romania’s – between 4.5 and 5.53 for the period 2012 – 2016, ranked respectively on position 42 and 28 in 2016) and health and primary education (with scores between 5.8 and 6.0 for Bulgaria and between 5.48 and 5.7 for Romania for the same period). The scores for higher education and training and, the labor market efficiency are moderately high (between 4.2 and 4.64 for Bulgaria and, between 4.0 and 4.45 for Romania). Romania is better performing than Bulgaria regarding

---

7 It relates the investment of non-financial businesses in fixed assets (buildings, machinery etc.) to the value added created during the production process.
8 http://ec.europa.eu/eurostat
10 From 61 economies worldwide.
11 Lower number is better.
the market size (with average score of 4.46 compared to 3.86 for Bulgaria) but worse at the goods market efficiency (with average score of 4.09 against 4.26). As for the technological readiness both countries show a gradual progress (to 5.14 for Bulgaria and to 4.71 in 2016). Both countries are weak at innovation (around 3.0 on average).

Figure 5

Rank by GCI sub-indexes of Bulgaria and Romania for the period 2011-2016

Source: own compilation based on GCI 2011-2017

Other basic obstacles are the institutions and the infrastructure as shown in Figure 6.\(^{12}\)

Figure 6

Rank by GCI basic requirements of Bulgaria and Romania for the period 2011-2016

Source: own compilation based on GCI 2011-2017

\(^{12}\) Lower number is better.
According to the countries’ rank, the technological readiness of Bulgaria has had a distinctive advance since 2012, shown in Figure 7\textsuperscript{13}.

**Figure 7**

*Rank by GCI efficiency enhancers of Bulgaria for the period 2011-2016*

![Graph showing the rank by GCI efficiency enhancers of Bulgaria for the period 2011-2016.](source)

*Source: own compilation based on GCI 2011-2017*

As for Romania, while the technological readiness and the labor market efficiency marked an improvement in 2016, all the rest efficiently enhancers’ factors represent a decline as shown in Figure 8\textsuperscript{14}.

**Figure 8**

*Rank by GCI efficiency enhancers of Romania for the period 2011-2016*

![Graph showing the rank by GCI efficiency enhancers of Romania for the period 2011-2016.](source)

*Source: own compilation based on GCI 2011-2017*

While no progress is noted between 2011 and 2015 for the sophistication of the Bulgarian business, in 2016 an improvement is reported for the first time as shown in Figure 11. The world ranking for economic freedom for Romania is also

\textsuperscript{13} Lower number is better.

\textsuperscript{14} Lower number is better.
slightly better in comparison with Bulgarian score from 2012 to 2014\textsuperscript{15}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure9.png}
\caption{GCI business sophistication score of Bulgaria and Romania for the period 2011-2016}
\label{fig:business_sophistication}
\end{figure}

The innovation trend for Bulgaria has also been progressing since 2014 reaching a higher level than the best Romanian score. The country still keeps the lowest performance in comparison with the rest of the factors assessed. The opposite trend is observed for the Romanian innovation, since 2014 it has been going down to a lower degree compared to the Bulgarian performance in 2016 (see Figure 10).

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure10.png}
\caption{GCI innovation of Bulgaria and Romania for the period 2011-2016}
\label{fig:innovation}
\end{figure}

The first three most problematic factors for doing business in Bulgaria in 2016 identified during the Executive Opinion Survey for the GCI are corruption, inadequately educated workforce and poor work ethics in the national labor force. Factors concerning the infrastructure, tax rates, access to financing and government bureaucracy come next. The corruption has been a major problem during the whole period of the current study followed by the inefficient government bureaucracy and access to financing (except in 2016). Both of them are large obstacles for doing business in Romania in 2016 as it is shown on the next figure.

\textsuperscript{15} According Fraser Institute at \url{https://www.fraserinstitute.org}. No data after 2014 are provided.
Most problematic factors for doing business in Bulgaria and Romania in 2016

Source: own compilation based on GCI 2011-2017

The corruption was burden number one for Bulgaria and Romania in 2012 as shown in Figure 12. It is continuing to be the biggest disadvantage for Bulgarian business environment while since 2012 Romania has made a progress in this respect.

Most problematic factors for doing business in Bulgaria and Romania in 2012

Source: own compilation based on GCI 2011-2017
Our practical approach to the business environment

In the framework of the present research, a questionnaire has been designed aiming at collecting actual and trustful information directly from companies operating both on Bulgarian and Romanian markets. The business environment in Bulgaria is perceived as definitely complicated by 30% of the companies comparing with 20% for Romania. It is complicated or rather complicated in Bulgaria for 50% and in Romania for 60% of the companies. Exactly 80% of the respondents rather agree that the Bulgarian environment is stable and predictable. It seems that there is not preponderance for the predictability of the Romanian business environment. The better predictability of the Bulgarian environment could be explained by the fact that 70% of the companies have been active on the market in Bulgaria for more than 7 years, and 50% in Romania — for less than 3 years. Thus, the companies in Bulgaria are better acquainted with the context and factors of influences. The Romanian business environment is considered stable by 30% and rather stable by 50% of the managers. However, a third of the respondents assume it as certainly stable. It is secure for 30% and rather secure for 60%. Still, the Bulgarian context is defined as insecure by 10% and rather insecure by 30% of the businesses. 40% of the respondents assess the environment as less dynamic in Bulgaria versus only 20% for Romania. On the whole, the Bulgarian business environment seems more complicated, more predictable and less dynamic, whereas the Romanian one is more stable, secure and dynamic. Without doubt, a more dynamic context could be more difficult to predict, as it is the case in Romania. On the other hand, a less stable and secure environment for the businesses is expectedly more complicated.

Figure 13

Characteristics of the Bulgarian and Romanian business environment

Source: own figure based on data of the survey on business

---

16 The online empirical survey was carried out in the period April-May 2017. The companies are operating in the sectors of accommodation and food services activities, administrative and support service activities, transportation and storage, manufacturing, wholesale and retail trade and, other activities.
The most important components of the business environment (BE) for the companies are the markets and the taxes. Judiciary and regulation are also considered to be one of the most important factors. Then come income distribution and human resources. All the components mentioned in the survey including macroeconomic stability, corruption, relations with the public institutions and the refusal of the state to provide regulatory intervention are marked with a total of 80% of weight in the responses.

**Figure 14**

*Most important components of the BE for the business*

Source: own figure based on data of the survey on business

The corruption and the judiciary both mentioned to be important for the business are recognized as the most problematic factors of the Bulgarian business environment. On the contrary, the social security, the infrastructure and the taxes are favourable for doing business in Bulgaria. Most of the components that are important for the business are favourable factors of the Romanian business context, firstly the judiciary and the income distribution, then the macroeconomic stability, the regulations and the human resources. The markets are among the most favourable ingredients of the business environment in Romania. Problematic are the infrastructure and the refusal of the state to provide regulatory intervention. Thus, Bulgaria has some stronger points concerning the taxes, the social security, the infrastructure and the refusal of the state to provide regulatory intervention, while Romania exceeds in judiciary, corruption, regulation, and markets. Romania slightly predominates when discussing the relations with the public institutions.

The most effective measures for improving the business environment in Bulgaria, according to the respondents, are reducing corruption and administrative burden, and improving judiciary work, as well as the efficiency of
the public institutions. The bureaucracy and the efficiency of the public institutions are the main factors that impede the Romanian business.

**Figure 15**

**Most effective measures to improve the BE in Bulgaria and Romania**

![Diagram showing factors affecting business environment](image)

Source: *own figure based on data of the survey on business*

**Conclusions**

On the basis of the results obtained in the above-mentioned surveys and the questionnaires spread among managers and entrepreneurs, the following conclusions can be made:

First, Bulgaria and Romania have many common problems in their business environments and business development. The two countries share approximately similar approaches to the improvement of the business environment. There are small differences between them, which can be ignored, but they have to be systematically studied and analyzed.

Second, the efforts in business environments enhancement are targeted to the European union recommendations and requirements because of the intensive market performance of both countries. That is a challenge for the existing economic culture in the Balkan region.

Third, the business environment has to be changed further in comparison
with the level that was achieved in the previous decade. The reason is the high market dynamics and the changed roles of the state and the entrepreneurship in the countries.

Fourth, the business environment needs a more sophisticated approach and methods for its further development, which have to be far from subjective. Both countries need their own monitoring system for business environment study and sophistication.

Acknowledgments

Bulgarian-Romanian Chamber of Commerce and Industry for spreading out the questionnaire to their members operating on both markets, and Founders and managers of companies - respondents in the survey.

References


