

Business Models and Economic Performance: Financing Model of the Economy of Romania

by

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Abstract. Following discussions held with various entrepreneurs and free people involved in the activities of SMEs through various associations and bodies, I noticed a number of problems both at macro and micro level. These, even if they were expressed differently, were a recurring theme present in the ideas of those interviewed. The lines below will expose some of these ideas and possible solutions to overcome them.

Key words: business, model, business model, financing model, economic performance

JEL classification: G020, A100, G240

1 Introduction

A lucid analysis of major setbacks in Romania's economic competitiveness should heal political autism. When you look at the character of a public decision-maker looking for the intelligence, energy, passion, empathy, courage and integrity. If no other trumps integrity are useless. They serve evil and corruption. Not incidentally, I chose poorly in the past 25 years and always say: Do not brag too much politicians as Romania's economic competitiveness dive. We all become smaller and smaller. Romania's GDP share in world GDP decreased significantly: from 0.33% in 2008 to 0,25% in 2013, which means that the countries of the world evolves significantly faster than us. If the policy last two and a half decades would take the right economic decisions we had a standard of living at least three times higher than today. Petty interests, crony, theft and incompetence still give their hand over the land. Moreover, when someone betrays his political family, has no problem betray their nation. And the reverse is true.

1.1 Romania's GDP accounted for both in 2008 and in 2013, only 1.1% of EU GDP

Romania's GDP share in world GDP decreased significantly: from 0.33% in 2008 to 0.28% in

2009 to 0.25% in 2012 and 2013, which means that the countries of the world have evolved significantly faster than us. Romania registered a growth of 3.5% in 2013. It is not enough. Neither the EU have failed to improve our position.

1.2 We export more

Romanian exports share in world exports increased from 0.31% in 2008 to 0.33% in 2009, decreasing to 0.32% uslr in 2012 and resume growth from 0.35% in 2013, according to the latest data available WTO. At EU level, the situation improved slightly: Romanian exports represent 1% of total EU exports in 2013 to 0.8% in 2008.

1.3 Industry and agriculture:

On the one hand, we are witnessing a slight increase of the Romanian industry in European industry, from 1.5% in 2008 to 1.9% in 2013. In contrast, the share of Romanian agriculture in European agriculture decreased from 4.8 % in 2008 to 4.1% in 2013.

1.4 A lucid analysis of major setbacks in Romania's economic competitiveness should heal political autism

Romania has lost 8 positions in the global rankings in the last 6 years. Global Competitiveness Indicator remained at 4.1 points in both 2008 and 2014, but fell Romania ranked 68 in 2008 to No. 76 in 2014, which means that the countries of the world have evolved significantly faster than us.

- The worst signal to the Global Competitiveness Report is where the administrative burden, where the index decreased from 3.4 points in 2008 to 2.8 in 2014 and fell Romania ranked 54 to No. 127 in the world.
- If judicial independence index decreased from 3.3 points in 2008 to 2.8 in 2014 and fell Romania from 88th to the 114th.
- Also, our country is positioned weaker in 2014 than in 2008 trust in politicians (ranked 141 in 2014 to 106th in 2008).
- Index of intellectual property protection seriously declined in this period, down from 64 occupied Romania in 2008, up 110 took place today.
- The quality of road infrastructure in our country has declined, which is why Romania fell in the ranking of 126 ranked No. 145 in the period 2008-2014.
- Quality education system has declined, falling Romania in the global rankings from number 71 ranked 99 in the same period.
- The intensity of competition in the local market fell, so that Romania dropped to No. 115 in the rankings for this indicator in 2014 to 86th place occupied in 2008.
- Effectiveness of anti-monopoly policy has declined and fell Romania ranks 113 in 2014 to 64th place occupied in 2008.
- Brain drain in our country increased, so that Romania dropped in the rankings and this indicator, the 102 took place in 2008 to 138th in 2014.
- Access to credit has declined from 2008 to the present, which is why our country has fallen in the rankings to No. 56 this indicator occupied in 2008 to 78th place in 2014.

Innovation capacity decreased in the period 2008 - 2012, falling Romania on 58th in 2008, 90th in 2014 Index companies with research

expenditures - development fell down Romania from 74th in 2008 to the 104 place in 2014 in this chapter. Collaboration between universities and industry in research - development index increased slightly, but the progress of other countries in this respect Romania descended from 72nd in 2008 to 88th in 2014.

1.5 Doing Business in Romania has become increasingly difficult

Ease of doing business fell Romania occupied the 47th place in 2008 to 73 in 2014. In the EU took place ourselves now in 24th place, ahead of Italy, Greece, Croatia and Malta, according to the latest report Doing Business.

- Ease of setting up a new business - 60 place from 189 in 2008 to 181 occupied 26th place in 2014. Establishing a business requires five procedures currently average, it takes 8.5 days, costing 2.4% of the average income per capita and requires a minimum capital of 0.7% of average annual income per capita.
- Ease of obtaining the building permit - 136 instead of 189 in 2008 to 88th out of 181 occupied in 2014. Obtaining a building permit today involves 15 steps, 287 days and costs 71.2% of the average income per capita.
- Ease of closing a business - 99th of 189 in 2008 to 85th out of 181 in 2014. Solving a insolvencies busy now lasts three years and four months, costs 11% of value of goods traded, and the recovery rate for creditors is only 30%.
- Payment of fees - 134 instead of 189 in 2008 to 146 instead of 181 in 2014. The companies have made 39 payments per year and 8.3 days are required to pay taxes.

Finally, the only indicator that we see progress in the global ranking position 7 is Economic Freedom Index. It increased from 61.7 in 2008 to 65.5 in 2013, rising in the world ranking of No. 69 to No. 62 in this period.

2 Foreign companies dominate the Romanian industry

More than 90% of industries in Romania are controlled by foreign owned companies: foreign companies dominate 21 of the 25 industrial markets. We only domestic companies owned for five industries: coal (100% Romanian companies) Other mining and quarrying (86%), food (65%), activities related to extraction (58%) and metallic construction (53%). Of these, only the food and metallic constructions are private.

- If 23 years ago Romanian industry of agricultural equipment (agricultural machinery, equipment or assemblies) had about 30 production units are currently she still only 8 players. Today is also locally made only small equipment; before being produced all the necessary equipment, from drills to tractors.

- If in 1994 there were 125 production units in operation in the brewing industry, today there are only 20. Romania is the only country in the region where the number of breweries is declining.

- chocolate industry in Romania was represented by only 3 factories chocolate and sweets. In eight years ago, domestic production covers over 80% of sales of chocolate. Today, chocolate consumption in Romania is covered for 80% of imports.

- Even if a market has developed quite dairy products, in Romania there is currently a manufacturer of prefabricated materials for industrial packaging and fruit. Importing 10% of the milk used as raw material film which is manufactured entirely from plastic cups which are in the composition fruit yoghurt.

- Romanians pay more than Eastern European neighbors for personal hygiene products because it does not have hardly any factory (for example, there is no toothpaste factory Romanian); Colgate production was relocated from Brasov in Bulgaria and the main solid soap brands are imported from abroad.

3 Alternative sources of financing SMEs - private equity funds (PE)

What are private equity funds (CE).

There are funds that represent a form of investment in private companies that are not

public (non-listed) of different sizes and stages of development, such as start-ups as well as small and medium companies.

The activities of private equity (PE).

1. Raising funds from investors who are invested further in private companies in various industries throughout the economy.

2. Provide alternative investment opportunities to investors.

Examples of investors: individuals, private and public pension funds, banks, corporations, bottom of funds (FoF).

3. Investment in SMEs and entrepreneurship, but also in large companies.

4. Private equity funds provide management expertise and know-how to portfolio companies.

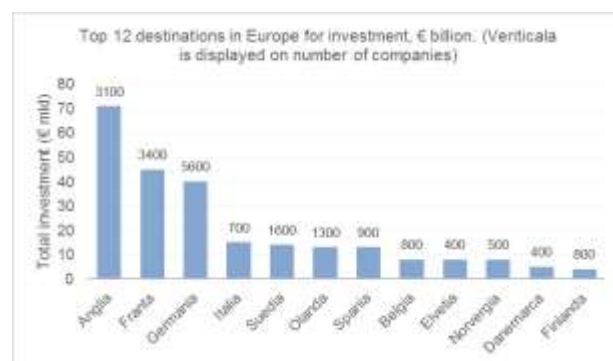


Figure 1 Where private equity funds investing in Europe? Source: Author after EVCA\PEREP_Analytics(2013)

Why use private equity funds in Romania?

Distribution companies receiving private equity by the number of employees in Europe.

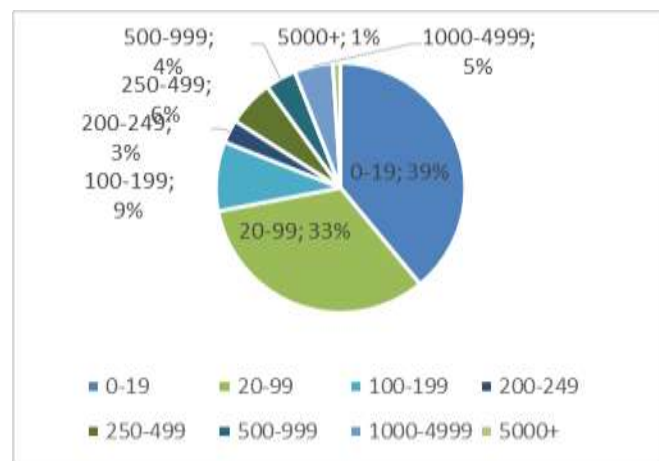


Figure 2 Distribution companies receiving private equity Source: Author after EVCA\PEREP_Analytics

Based on the history of investment in Europe, 84% of all registered companies in the portfolio of PE funds are companies with less than 250 employees (SMEs and Entrepreneurship). In 2007, Romania SMEs account for around 70% of GDP.

Economic development strategy - Europe 2020 growth strategy

Based on the strategy - Europe 2020 growth strategy for the next 10 years are identified three key elements:

- Innovation
- Productivity
- Competitiveness

To better understand the impact of private equity funds in growth we left three key channels using statistical data of the Europe 2020 growth reports.

There are clear links between the elements mentioned: innovation support productivity improvements that further enhances competitiveness.

Innovation and its role in economic growth.

The European Commission has identified innovation as a flagship initiative of the European Commission for 2020. The development of the countries that invest more in research and development (R & D) fail to record better economic results.

Investment in research and development (R & D) and economic recovery.

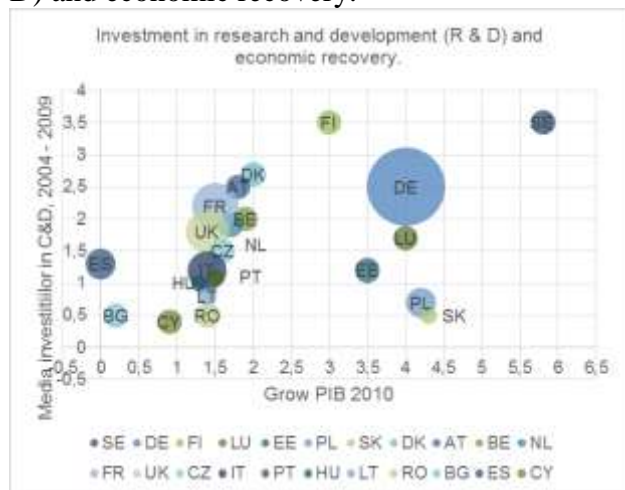


Figure 3 investment in research and development and economic recovery

Source: State of the Innovation, European Commission

The chart Investment in research and development (R & D) and economic recovery is observed as Germany (DE) and Sweden (SE) recorded higher levels of investment in R & D which led to a greater increase in GDP in 2010, and the opposite Greece (EL) and Latvia (LV) with low research and development (R & D) in the same period înregistrează negative performance GDP growth. Romania occupies a similar position with Bulgaria to the level of investment in R & D, but with a greater increase in GDP.

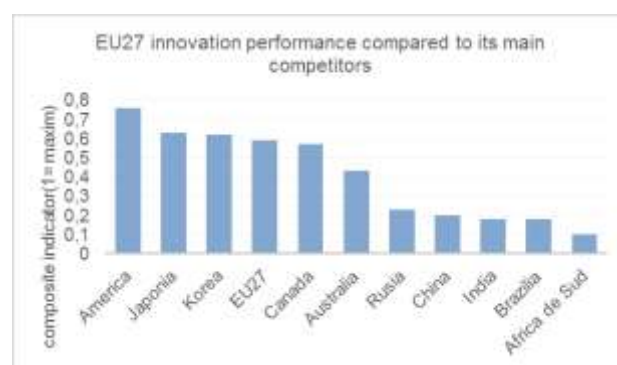


Figure 4 EU27 innovation performance compared to its main competitors.

Source: Author after European Commission

Half of the R & D framework OECD (Organisation for Economic Co-operation and Development) is made of 10% of Member countries. EU27 lies behind countries such as America, Japan, Korea by differences between the countries in the region and this impacts on competitiveness. Finally it has a negative effect on international competitiveness and making the international competitiveness of Romania to become vital.

The campaigns are supported by funds innovative

Popov and Roosenboom (2009) estimates that 12% of European industry innovations are attributed to companies backed by PE funds using data from patenting activity in 21 countries during 1977-2004.

According to the World Intellectual Property Organization (WIPO) were granted 973,410 patents between 2007 and 2011. Dacă apply the 12%, 116,000 patents assigned to companies supported by funds PE. Valoarea mean a patent

owned by a company in Europe 3 mil. € 116,000 resulting in a volume of 350 billion € worth in 5 years. Supporting young companies. OECD research shows that the share of patents filed by young companies represent a higher percentage of total patents filed in a country, Germany 7%, UK 10%, Denmark 16%, Norway 21%. Statistics outstanding at that PE funds supporting innovation in young companies, given that they hold 80% of the portfolio. productivity

Improving productivity through investment in physical capital.

Capital-intensive sectors represent 60% of total investments of PE funds, based on the high proportion of investment in these sectors can be inferred that PE funds contribute to improving productivity through increased investment in physical capital, such as equipment, buildings, machines.

Increasing productivity through performance îmbunătățirea

A study by Ernst & Young (2012) on 473 exits (sales of shares) in Europe between 2005 to 2011, companies with holdings IN recorded increases in average earnings per employee before interest, taxes, depreciation and amortization of 6.9% .In plus an American study shows that in times of crisis in the credit market, the difference in productivity growth between capital backed companies PE and those without support from investment funds is higher by 5.2% in only two years after the investment.

All companies include venture capital organizations, joint-ventures, charitable foundations, and shareholders unknown

Companies with same acționar> 3696 include the companies that had the same owner for more than three years

The study was conducted in 4221 by manufacturing companies in the EU, Asia and America, PE investment companies are particularly strong in operational management, such as the adoption of modern production practices and a comprehensive documentation of processes performance. As a result companies backed by private equity funds in terms of management practices receiving the highest scores on average, the difference is

substantial when comparing government institutions with family type business firms (external CEO).

At the same time capital firms PE funds have a significantly better management than government institutions, family businesses or private firms.

European Commission founded project VICO (Financing Entrepreneurial Ventures in Europe) in order to measure the impact of financing funds Private Equity Venture Capital and Economic Performance innovative associations in Europe originates in the rate as innovation, job creation, economic growth and competitiveness. After a detailed and quantitative analysis it was observed that PE & VC fund investments are negatively correlated with unemployment.

A studio Ernst & Young analyzing 473 companies with capital funds of PE & VC, the market value of over 150 million €, the time of purchase were increases in employment by 2.2% per an.În comparison Employment in EU27 has fluctuated between 1.8% and negative 1.8% between 2007 and 2011.

Competitiveness

Improving domestic economy and international level is a prerequisite for economic growth record. Based on this condition, private funds equitata impact in two main ways:

- International competitiveness
- Availability to finance risky business sites.

International competitiveness

Private equity funds actively participates in the management of companies in which they invest and provide strategic and operational know-how to enter foreign markets and in addition may finance the internationalization efforts.

In a paper in 2008, Lockett describe how funds from the influence of internationalization efforts portfolio companies. Based on survey data from 340 companies across Europe to identify value-added activities (development of new strategies, providing advisory board interface with the group of investors) as the most relevant in promoting exports in the early stages of collaboration. Following that the next steps to provide funds on monitoring activities to ensure the process of internationalization.

Issuing of a study in 2012 in Sweden comprising 889 small and medium enterprises, reveals a reluctance to risk managers (or other senior managerial) and also reduced the appetite for internationalization compared with foreign owners such as private equity funds.

Availability to finance risky business sites

World Economic Forum (WEF) published each year Global Competitiveness Report, which ranks countries according to the level of international competitiveness. One of the criteria it uses to assess competitiveness WEF is the availability of venture capital financing to fund the creation of new businesses based on the fact that those funds support companies with risk but innovative projects.

Funding scheme from private equity (PE) and the Ministry of Economy for SMEs and entrepreneurship:

Ministry of Economy will play a strategic role to be the first LP (limited partner) - investor. Other investors: EBRD - European Bank for Reconstruction and Development (European Bank for Reconstruction and Development) EIF - European Investment Fund (EIF) IFC - International Finance Corporation

Ministry of Economy put in a Fund of Funds (FoF) € 100 million.

Administrarea FoF Asset Manger is done by a professional (eg Erste, Raiffeisen, Certinvest)

- Administration of is not regulated by law.

- 2% management fee and 20% performance fee
Consulting company will contribute 10% of the FoF of to be interested in investing money

Consulting company has a mandate to invest in buyouts, growth capital, venture capital, distressed, debt, mezzanine, with other Limited Partners (eg EBRD, EIF, IFC etc) with a maximum holding of 25% of a fund. It's very important to be able to invest in first timers, spinoff.

4 Conclusions

The main target industries for private equity investors will remain the retail and consumer goods (63%) followed by the pharmaceutical industry and health services (61%) and the area of technology and media (55%).

Compared to last year, the energy sector recorded the largest decrease investor interest. According to Roland Berger consultants' debate publish the transition of the energy sector and legislative conditions brake will most likely unsafe transactions in this sector "

Private equity companies but does not focus only on new purchases.

According to 98% of those surveyed, active involvement in portfolio management is equally important. "Investors can no longer allows you to adopt a passive strategy of the companies they own," observes consultants Roland Berger. "The shareholders must actively contribute to successful development of their investments. "

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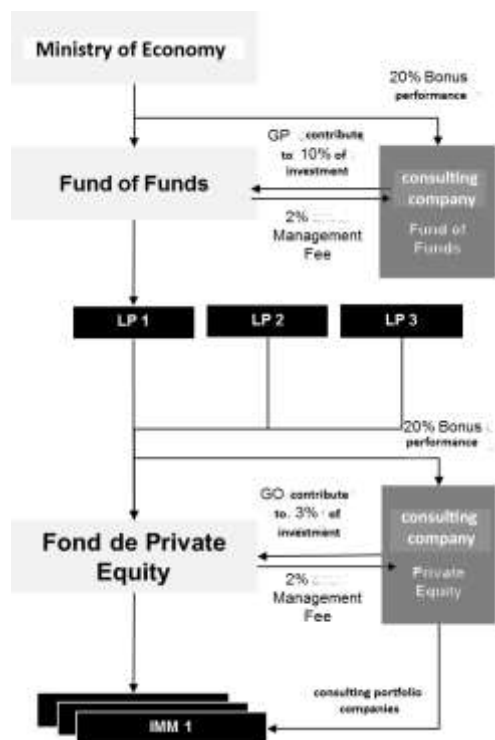


Figure 5 Financing Model of the Economy of Romania.
Source: Author

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