

## **Harghita County's Business Environment**

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### **Abstract**

In the framework of the global economic system, the competitiveness of the specific businesses depends on the local area they are functioning in. This is why the economic development of a county depends primarily on the local businesses. The paper aims at presenting the economic situation in Harghita County in the light of its business environment and employment situation.

**Keywords:** business environments, competitive region, unemployment, economical situation

A competitive and successfully emerging county can be created only by competitive businesses and competitive localities. Enterprises ran in the county and its localities develop and move forward together or get behind in the race together. In the framework of the global economic system, the competitiveness of the specific businesses depends on the local area they are functioning in. This is why the economic development of a county depends primarily on the local businesses.

The paper aims at presenting the economic situation in Harghita County in the light of its business environment and employment situation. Focusing on these topics we can gain a general view on the county's most important economic features. Data used in the present paper come from different sources: Statistical Office of Harghita County, Commerce and Industry Office of Harghita County and Company Registry of Harghita County.

The recently ongoing global financial crisis affected Harghita County as well decelerating the potential economic development and forcing everyone towards new types of adaptations. The most endangered parties in

this crisis are the small and medium enterprises that are extremely important from the point of view of the county's economic development as the majority of investments in the county are made by them. The population was and can be affected mainly by the unfavorable change in employment and income rates.

Harghita County being part of the Central Region we will first analyze the GDP of this region. In 2006 the GDP value of the region was 40,291.2 million RON, that is 11,69% of the total GDP in Romania. According to this, the Central Region occupied the 4<sup>th</sup> place among the regions. If we look at the per capita GDP, the region qualifies at the 3<sup>rd</sup> place among the regions (15920,2 RON/person, that is 0,3% less than the national average). The distribution of GDP within the Central Region is very different. The region occupies a really good place on a national level, although there are great developmental differences within the region. There are counties inside the region which in the last few years had a greater GDP share (Alba, Sibiu) and there are counties where the GDP share decreased (Covasna, Mures).

In 2006 the GDP share of Harghita County was 11,08% within the Region which means a 1,1% increase since 2002. It is worth comparing the per capita GDP value of the Central Region and its counties with the national, Romanian per capita GDP value. Between 2002 and 2006 the per capita GDP value showed an increase in all counties.

The increase rate is more than double compared to 2002 both on national and regional level. The table shows a comparison between the per capita GDP value in Harghita County and the national values. It is clear that the per capita GDP value in Harghita remained constantly behind the national average. The operating firms and businesses in the county play an important role in its economy – taking part in the income generation they help the employment, pay taxes to the central budget and local governments. If we take a look at the number of companies, we can observe a continuous growth between 2005 and 2007 both on national and county levels. On a national level, in 2006 we can observe a 6% increase compared to 2005 and an 8% increase in 2007 compared to 2006. In this period the annual growth rate in Harghita County was 7%. In 2007, companies from Harghita County represented 1,54% of the total companies in the country and 12,5% of the companies in the Central Region.

Table 1. The companies' number between 2005-2007.

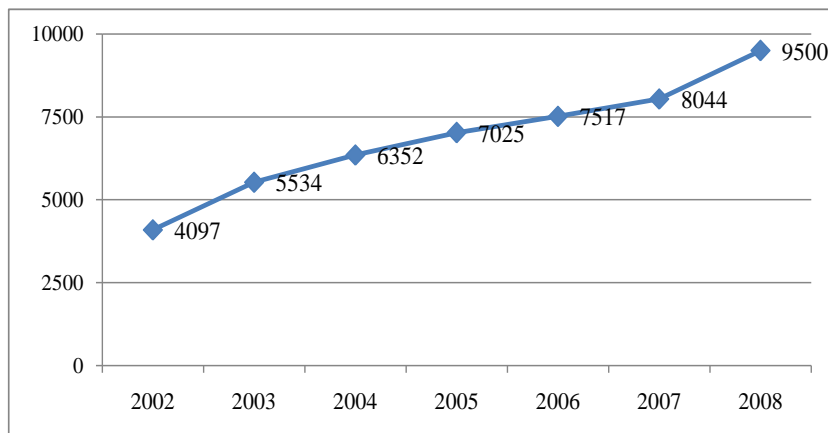
<i>Year</i>	<b>Harghita County</b>	<b>Center Region</b>	<b>Romania</b>
2005	7025	55782	450202
2006	7517	59300	480323
2007	8044	64292	520032

*Source: Based on a statistical office's data*

If we accept the hypothesis that in the economy of every region or county the number of the operating companies is a decisive factor, then the cumulative number of companies and the change in the enterprises' number shows the potentials of a region's economic development.

Graph no.1.

The active undertakings' number between 2002-2008 in the Harghita county



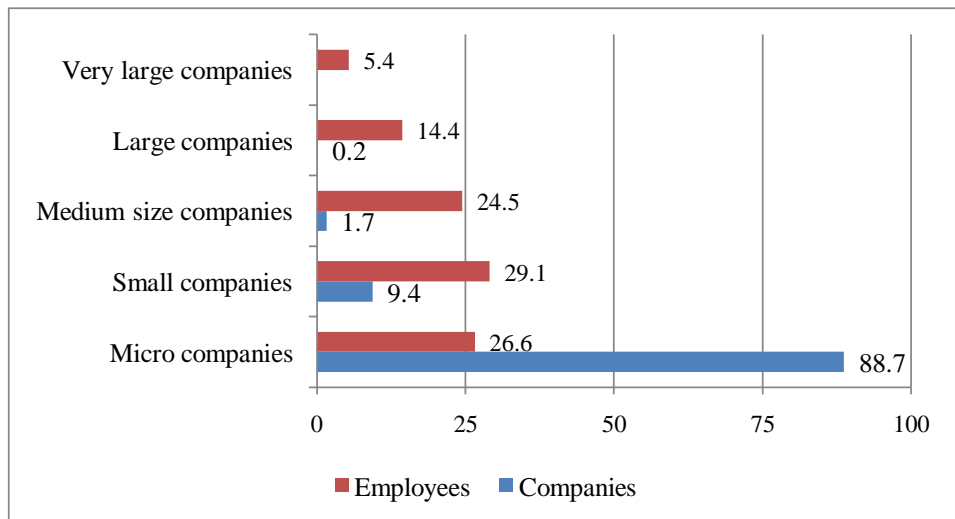
Source: Own calculation based on a statistical office's data

According to the Company Registry of Harghita County, in 2008, 12,224 companies were registered in Harghita. From these companies only 9,500 handed in their annual report and annual balance. In 2008, the total profit in the county was 372,9 million RON, that is due to the functioning of 5,092 companies. 88,7% of the enterprises is micro-sized (no more than 9 employee) and 9,4% is small business (number of employees ranging from 10 to 49). There are only two large businesses (more than 1,000 employees) in the county, where there are a total of 3,350 employees. If we look at the

proportion of employees in relation to the size of the businesses, it results, that the highest proportion of employees is in the case of small businesses (29,1%) followed by micro-sized enterprises (26,6%) and finally the medium enterprises (24,5%). The large and very large businesses employ 19,9% of the employees, which means 12,295 people altogether. According to the results above, it can be further concluded that the small and medium businesses employ more than 80% of the employees.

Graph no. 2

The undertakings' distribution according to a size and employees in 2008 (%)



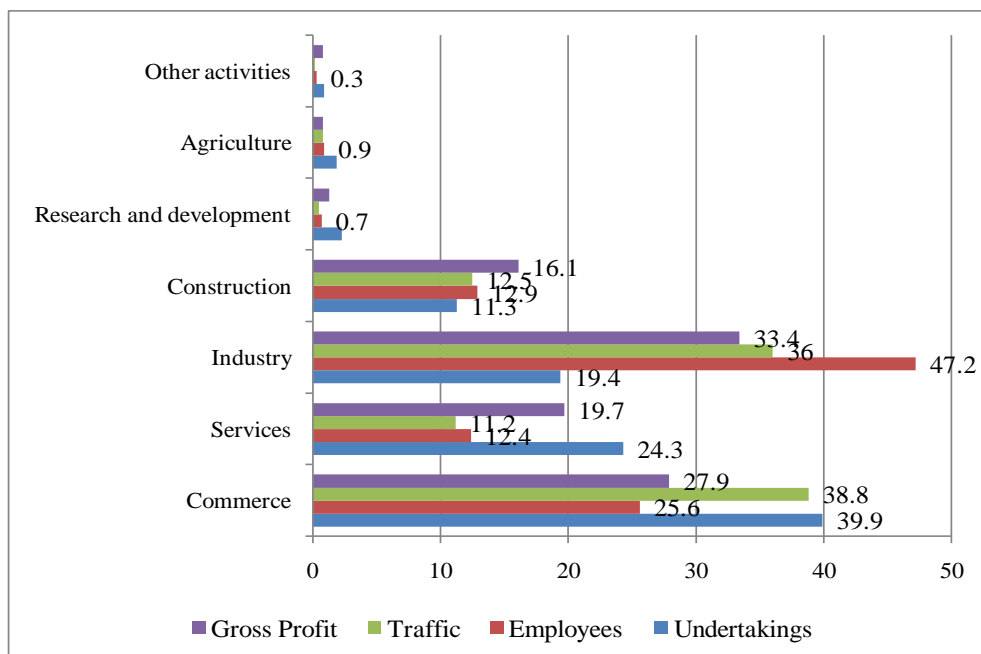
*Source: Harghita Chamber of Commerce and Industry*

In 2008, 37,1% of the economic return was achieved by the micro-sized enterprises, followed by small businesses with 28,8% and medium businesses with 24,9%. The return of large and very large businesses represented only 19,9% of the total trade. Data about commerce confirms again our statement that small and medium businesses dominate the economic system as it is typical for this region. In this case, 80% of the profit is also due to the activities of small and medium businesses. Trading companies represent the highest percentage from the total number of companies – 32,2% – employing 13,220 people in total. Trading companies are followed by the services sector (transport, storage, professional activities, sport activities, consulting, post, advertising, education, healthcare, cultural activities, leisure activities, real estate, public services) that represents 24,3% of the companies and employ 7,724 people. In 2008, in Harghita County

there were 62,078 employees most of who worked in the industry (47,2%), followed by trade (21,3%), constructions (12,95%) and the services sector (12,4%). Only 0,9% of the employees worked in agriculture and even less (0,2%) in tourism.

Graph no. 3.

The undertakings' distribution section according to a profit, the proportion of traffic, employees and the undertakings in 2008 (%)



*Source: Harghita Chamber of Commerce and Industry*

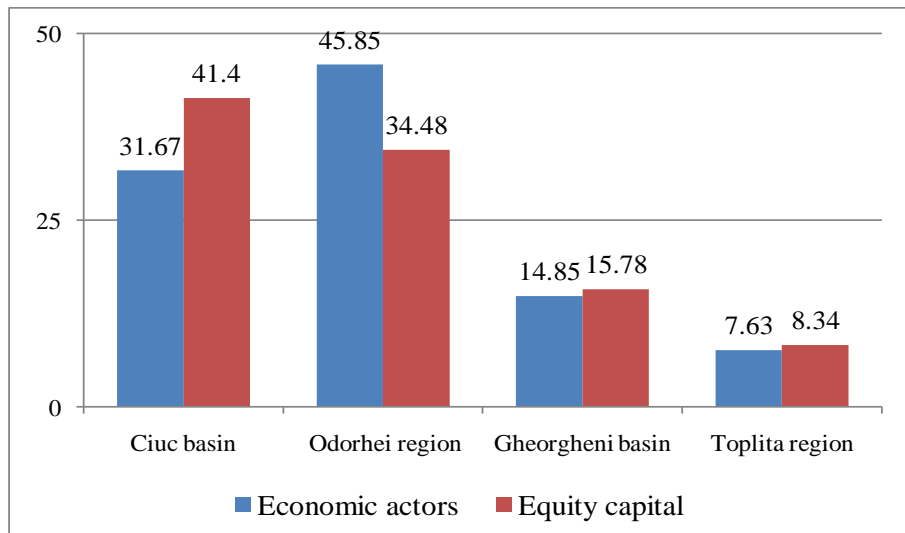
38,8% of the commerce was reached by trading (372,9 million RON), followed by the industry (36%), constructions (12,5%) and services (11,2%). Agriculture, a sector with great traditions in the region, reached only 0,8% of the total commerce. If we analyze the gross profit, industry is on the first place with 33,4%, followed by trading (26,2%), services (19,7%) and constructions (16,1%). 97% of the county enterprises is limited liability company and 1,8% joint stock company. The distribution of firms based on equity shows that 83,6% is Romanian private business (that is 331756437 RON equity). Beside this there is a significant number of foreign firms, although if we look only at their number, they represent only 15,75%. However, if we take into account the proportion of equity, they represent 40,73% of the total capital.

As regards the situation of new entries, Harghita County still shows an increase against the difficulties brought about by the economic crisis, as there were more entries (578) than suspensions in the first half of the year 2009. According to data provided by the County Company Registry, 40,25% of the businesses are private, followed by limited liability companies with 28,88% and authorized natural persons with 24,17%.

If we look more closely at the sectoral repartition, then the highest increase regarding entries have been registered in the area of agriculture and industry. In the same time, regarding suspensions, the highest increase has been registered in the area of trading. This also means that the most vulnerable sector is trading, being the most affected by the poor demand caused by the economic crisis. Despite all these, trade is still the most attractive sector in the county as it represented 22% of the new entries. If we compare the smaller areas within the county, it can be seen, that the highest number of active business is run in the Odorhei area (45,85%). However, looking at the proportion of equities Ciuc Basin represents the highest proportion (41,4%).

Graph no. 4.

The economic actors' and the equity capital's distribution in Harghita county geographical areas (%)



*Source: Own calculation based on data from National Trade Register Office of Harghita county, 2008*

*Foreign Investments*

According to the Harghita County Company Registry, in 2008, there were registered 1975 enterprises with foreign capital that means 15% of the total enterprises. The foreign companies operating in the county account for 1,23% of the total foreign companies in the country.

Table 2.  
Foreign country investments in Harghita county, 2008

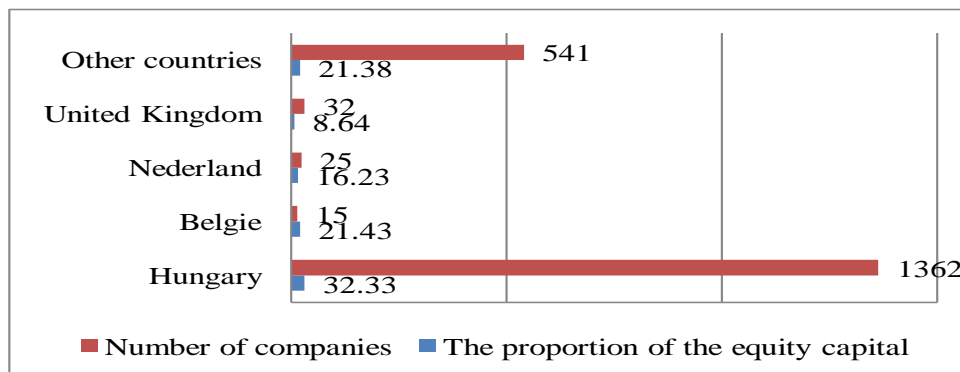
Country	Number of companies	The value of the equity capital lej	The proportion of the companies' number
Total	1975	184618115	
Hungary	1362	59681710	68,96
Deutschland	116	3773299	5,87
Osterreich	100	3543907	5,06
Italia	66	2431487	3,34
France	34	157468	1,72
United Kingdom	32	15942018	1,62
United State of America	32	2405723	1,62
Other countries	233	96682503	11,80

*Source: Own calculation based on data from National Trade Register Office of Harghita county, 2008*

The foreign capital comes from 50 countries out of which the proportion of some countries is minimal. If we look at the number of investors, then we can see that Hungary, Germany, Austria, Italy, France, the USA and England have leading positions. 88,2% of the foreign investment come from the above listed countries, which means 1742 companies. Regarding the number of investors Hungary represents 68,9% of the foreign investments, but regarding the proportion of the invested capital it only represents 32,3%. According to the value of invested capital the Netherlands and Belgium occupies the second and third place, representing altogether 37,6% of the total foreign investments. These countries represent only 2,02% of the foreign companies, meaning 40 operating companies.

Graph no 5.

The comparison of the number of the initial capital and the undertakings (2008)



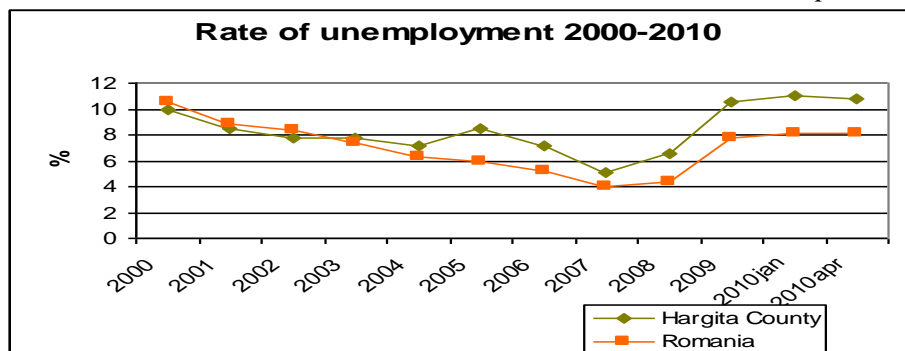
*Source: Own calculation based on data from National Trade Register Office of Harghita county, 2008*

If we take a closer look to the situation, we can see that the origin of foreign investments on a national level is similar to that of the county level. Some countries that have invested foreign capital in Harghita County in a larger proportion are also significant on a national level.

*Unemployment in Harghita County* The rate of unemployment in the analyzed county presents a significant difference compared to the national rate. In the presented period, the highest national unemployment rate was calculated in 2000 when it reached 10,5%, at the same time, this value in Harghita County was only 9,9%.

Graph no. 6.

*The changes of the unemployment rate in Romania and in Harghita County, 2001 – April 2010*



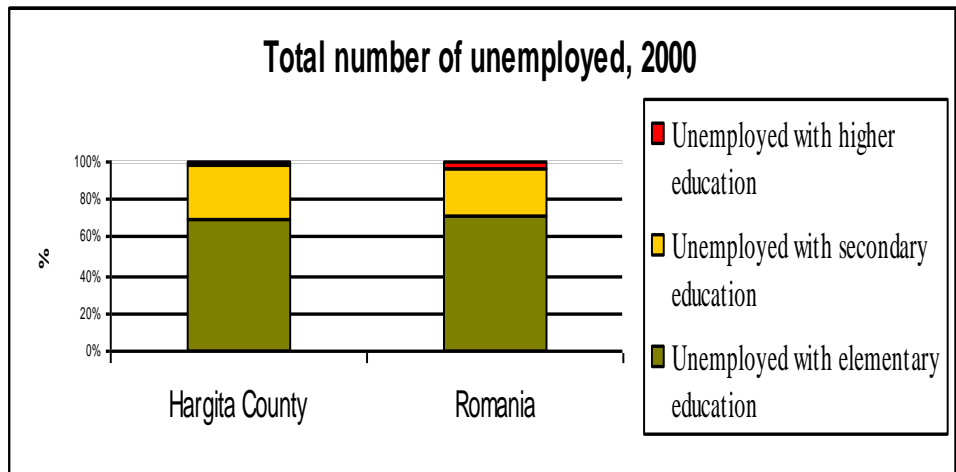
*Source: Own work based on the data from the National Statistics Office*



Based on the above presented chart we can conclude that a high need for human resources as a result of the investments made in the pre-crisis period characterized the whole country. Than in the 2007-2008 period we could witness in Romania an economical prosperity. In the field of labour market this caused a low rate of unemployment and the effects of the economical crisis affected the country more significantly. Thus in January 2010, the rate of unemployment has kept its growing tendency, in Harghita County was 11% and the national average was 8,1.

Graph no. 7.

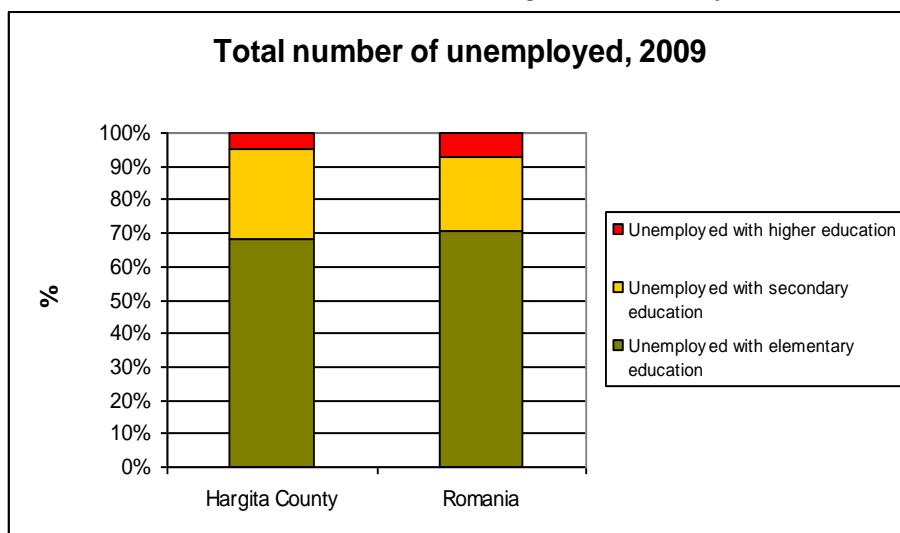
*The classification of unemployed in Romania and in Harghita County according to their level of education, 2000*



*Source: Own work based on the data from the National Statistics Office*

As we can conclude, in 2000 the number of unemployed with higher education was lower in Harghita County than the national average, but in case of those with secondary education this rate was higher than the national average and in case of those with elementary education the rate of unemployment in Harghita County was similar with values calculated in the other localities of the country.

*The classification of unemployed in Romania and in Harghita County according to their level of education, 2009*



*Source: Own work based on the data from the National Statistics Office*

In the 2000-2009 period not only the rate of unemployment in the analyzed regions had changed, but there were also transformations in the composition of the unemployed population. The rate of employment of people with higher education is still better in Harghita County than the national average. In contradictory the employment problems of people with secondary education are more significant in Harghita County than the national average, which reflects the lack of professionals needed on the field of industry. Comparing the two years, the rate of unemployed with lower education does not present a significant change, but in contradictory, more and more people with higher education became unemployed.

Finally, we can draw the conclusion that since the regime changed the business environment has undergone significant changes both on national and county levels, reflected by the substantial increase in the number of firms. We can say that the county's economy is still under the process of structural change, as services gain more and more importance and agriculture less and less. The county's economic boom was made possible by the development of the services sector and constructions, by the growing trend of consumption and the foreign capital inflow. The largest proportion of all enterprises are the commercial companies, representing 32,2% of the

companies. Commercial companies are followed by the services sector representing 24,3% of the companies. This is also reflected by the rate of economic return, as the highest proportion of the total amount of return is represented by the commerce. The proportion of employees is the highest in the case of small businesses followed by micro-sized and medium businesses. Looking at the distribution of registered enterprises from the point of view of their ownership, commercial companies represent the largest number followed by the authorized natural persons (individual and family businesses).

At the same time, it can be mentioned that the developmental period following the regime change was broken by the 2008 crisis, as the increasing unemployment rate at the end of the year 2008 marked the beginning of the global financial crisis. The year 2009 showed a further decline of the situation. The unemployment rate registered in the county exceeds the national average (5,3%) with 2%. The effects of the recession are highly visible both on the labor market and in the business environment. The different orders declined greatly both on the domestic and foreign markets. So the heavy decline in the demand for consumer goods has a serious impact both on the county's economic situation and also on the size of demand on the labor market.

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