

BUSINESS REGISTRATION AND CLOSING DOWN IN ROMANIA: A COMPARATIVE ANALYSIS

Lorena Florentina DUMITRAȘCIUC¹, Elena-Sabina TURNEA²

Alexandru Ioan Cuza University of Iași, Romania

Abstract

It is not as easy to succeed in business as it is to fail. The market still needs research for business owners on how to manage business properly. The authors carried out a research that studied the situation of registered and deregistered companies in Romania between January 2019 and 2020 in order to analyse what led to the success or failure of businesses in Romania. For this purpose, descriptive and correlation analyses was applied to collected data. Our results show for the two analysed periods that there is a positive and very strong correlation between total company registrations and deregistrations. Also, there has been found a positive and moderate correlation between the total number of registrations for the self-employed status and the region. This pilot study provides an alternative perspective to business owners helping them avoid the worst situation of closing down their business.

Keywords: *Business, Companies, Registrations, Closing Down Business.*

JEL classification: *M13, M21, L26.*

1. Introduction

A wide range of studies have shown that success in business could not be achieved easily. To grow its business, it requires a set of clear qualities, skills, strategies, policies and procedures (Altman, 1984; Inge and Greve, 2002; van Praag, 2003; Makridakis, 1996; Langvinienė and Daunoravičiūtė, 2015).

Success in a business is defined in many ways and differs from company to company. For example, for some business owners, success is

¹ *Postdoctoral Student, Alexandru Ioan Cuza University of Iași, e-mail: lorena.popescul@gmail.com*

² *Assistant professor, Alexandru Ioan Cuza University of Iași, e-mail: sabina.turnea@yahoo.com*

when they have talented employees (Tarricone and Luca, 2002; Lussier et al., 1996, Ind, 2003), or when it is profitable (Ansoff and Sullivan, 1993; Roper, 1999). For others, success of their business is accomplished when the set goals have been achieved (Griffis et al., 2004; Weber et al., 2015; Walker, 2004; Miller and Besser, 2003).

The study applies a quantitative analysis by using two databases provided by the National Office of the Romanian Trade Register, comprising the number of company registrations and deregistrations. Our analysis provides to potential investor, employees, and interested people an overview of recently registered and closed down businesses

2. Literature review

The action of closing down a business takes place when it encounters financial difficulties and no longer works. Therefore, it must be liquidated and then closed down (Law 31/1990, as amended in 2020. Law on companies, Art. 237 Company dissolution). Undoubtedly, all the registered and developing businesses face a number of challenges (Chesbrough, 2011), do not grow evenly, or at the same pace, or are found in the same stage of development (Phelps et al., 2007; Arin et al., 2014). We believe that as companies grow, the problems that come up are more and more different and difficult requiring complex solutions. For instance, what worked six months ago as solution to a problem in a business may not be the best approach in the following six months, and so on.

Entrepreneurs are the ones who create and develop new businesses (Sundbo, 1998). The skills determining an entrepreneur start a business differ from the skills required for developing a business. Business development asks for acquiring new knowledge skills and abilities (Phelps et al., 2007; Jena, 2020; Lazear, 2005). When a company grows it needs all employees be involved in all processes of a company (Warrington et al., 2000). And here also leadership skills are needed. The best leaders are those who detect opportunities on time and capitalize them at the same time (Abu-Saifan, 2012). However, growing a business requires an assessment of a business strategy for adapting it to the market conditions.

Once the entrepreneur carefully has chosen its team, it will benefit from a series of new ideas necessary for business development. The team contributes the most to increasing entrepreneur's potential as a leader. At the same time, the energy dose obtained in a team is higher than in the case of an individual (Maxwell, 2005). Entrepreneurs need to learn how to run their

businesses efficiently and take advantage of opportunities at the right time, which can lead to sustainable organizational growth in the future. Additionally, as the team grows, employees need leaders in organizations because they build relationships and influence (James and Burgoyne, 2001).

Businesses usually fail because of the choices of the owners (Hedges, 2003). That is why they need to clarify their vision, in order to discover opportunities that have not been not obvious until now (Poscente, 2009, Perren and Burgoyne, 2002; Esfandiar et al., 2019). Once the vision is clarified, owners need to inspire their team (Poscente, 2009 and Timmons, 2007). Business people must also learn to delegate responsibilities, improve their managerial effectiveness and be able to develop their business on several levels (Phelps et al., 2007; Vecchio, 2003; Perren and Grant, 2001). This requires trust in the management team and giving up the daily control of every detail (Zeus and Skiffington, 2002; Warrington et al., 2000) because what kills creativity and motivation is the excessive control.

As for closing down a business, it is the action of deleting a company from the Trade Register. Basically, after the dissolution and liquidation of a company has occurred, the final stage is the business closing down. Business owners need to know the procedures for closing the business, because otherwise they risk penalties and problems in the tax recordings of the administration (Law on Companies 31/1990, republished (r2) in the Official Gazette under no. 1066/2004, as amended in 2010 by GD no. 43/2010).

Closing down business procedures are much more difficult, in terms of documents and time (given that the deregistration process takes, on average, about 3 months), unlike registrations, where a company registration lasts only 3 days.

3. Data and methodology

This study analyses the business registrations made in Romania between 01.01.2020 – 31.01.2020 compared to the same period of the previous year (01.01.2019 – 31.01.2019). Also, the study presents the businesses that were closed down during the same periods. All types of legal entities in Romania have been taken into consideration. The type of legal entity refers to all possible types of companies in our country: AC (agricultural cooperative), EEIG (European economic interest group), EIG (economic interest group representing an association between two or more natural or legal persons, established on fixed term), FB (family business), SP

(sole proprietorship), AP (authorized natural person), OJSC (joint stock company), LP (limited partnership), LLC (limited liability company).

All the variables used in the descriptive and correlation analyses are presented below. These variables were inspired by two databases provided by the National Office of the Romanian Trade Register. Their definitions are described below the Table.

Table 1: Variables used in the research and their utility

| Variable | Utility |
|---|----------|
| Total registrations in January 2019 | DA CA |
| Total registrations in January 2020 | |
| Total closed down businesses in January 2019 | |
| Total closed down business in January 2020 | |
| Region | CA |
| Number of companies registered under the AP category for the period January 2019 | DA CA |
| Number of companies registered under the AP category for the period January 2020 | |
| Closed down business dynamics since January 2020 compared to January 2019 | DA |

Source: National Office of Trade Registry, 2020. DA – Descriptive analysis; CA – Correlation analysis.

The total number of registrations is the number of companies that registered during a specific period at the National Office of the Romanian Trade Register.

The total number of closed down businesses is the number of companies that closed down in a specific period according to the National Office of the Romanian Trade Registry.

The data used in this study cover 42 counties of Romania. To perform the correlation analysis, the 8 regions of Romania were used (North-East, South-East, South, South-West, North-West, West, Center and Bucharest-Ilfov), into which the counties are included. The reason behind was that the regions can provide a more compact image, and implicitly, closer to reality regarding the correlations between the geographical area and the number of registrations or delisting companies.

The dynamics of closed down businesses refers to how evolves the number of closed down businesses from one period to another. This indicator was calculated using the following formula:

$$\text{Dynamics of closed down businesses (\%)} = [(\text{Number of closed down business period } t - \text{Number of closed down business period } t-1) / \text{Number of closed down business period } t-1] \times 100$$

Five hypotheses have been formulated for this study:

H1: There is a close connection between the total number of registered companies and the total number of closed down businesses for the period January 2019.

H2: There is a close link between the total number of registered companies and the total number of closed down businesses for the period January 2020.

H3: There is a link between the region and the number of companies registered under the AP category for the period January 2019.

H4: There is a link between the region and the number of companies registered under the AP category for the period January 2020.

H5: There is a link between the region and the closed down businesses dynamics in the January 2020 period compared to January 2019 period.

4. Results

Table 2 shows the analysis of the number of registrations and the number of closed down businesses for the two reference periods: January 2019 and January 2020.

Table 2: Number of companies registered and closed down in Romania in January 2019 and 2020

| Type | Year | Number | Skewness Coefficient | Kurtosis Coefficient |
|---------------|---------|--------|----------------------|----------------------|
| Registrations | 01.2019 | 15640 | 2.225 | 7.687 |
| | 01.2020 | 9792 | 4.605 | 25.392 |
| Closing down | 01.2019 | 6876 | 4.935 | 27.883 |
| | 01.2020 | 4878 | 4.423 | 24.222 |

Source: processed using data provided by the National Office of Trade Registry, 2020.

In the 42 Romania counties, in January 2019 there were 15640 registered and 6876 closed down companies, while in January 2020, there were only 9792 registered and 4878 closed down companies. The share of closed down companies in the total company registrations in January 2019 was 43.96% and 49.82% in January 2020. Thus, we note that, in 2020, compared to the previous year, the share of closed down companies in the total company registrations increased by 5.86%. Interestingly, the monthly

percentage of closing down businesses varies between 40% and 50% for both years, 2019 and 2020.

For the total company registrations in January 2019, the Skewness coefficient has the value of 2.225, and the Kurtosis coefficient the value of 7.687. As for the total company registrations in January 2020, the Skewness coefficient is 4.605, the Kurtosis coefficient 25.392. For the total closing down businesses in January 2019, the Skewness coefficient is 4.935, and the Kurtosis coefficient 27.883. In what regards the total closing down businesses in January 2020, the Skewness coefficient is 4.423, and the Kurtosis coefficient 24.222.

We have found that the distributions are not normal, since the Skewness coefficients are higher than 0, and the Kurtosis coefficients are higher than 3.

Table 3 shows companies registered in January 2019 and 2020 by following categories: AC, EEIG, EIG, FB, SP, AP, OJSC, LP and LLC.

Table 3: Number of company registrations by category during 01.01.2019 - 31.01.2019 and 01.01.2020 - 31.01.2020

| Period / % | AC | EEIG | EIG | FB | SP | AP | OJSC | LP | LLC | Total |
|------------|------|------|------|------|------|-------|------|------|-------|-------|
| 2019 | 22 | - | - | 67 | 659 | 1872 | 4 | - | 13016 | 15640 |
| % | 0.14 | - | - | 0.43 | 4.21 | 11.97 | 0.03 | - | 83.22 | 100 |
| 2020 | 12 | 1 | 1 | 64 | 662 | 2148 | 6 | 1 | 6897 | 9792 |
| % | 0.12 | 0.01 | 0.01 | 0.65 | 6.76 | 21.94 | 0.06 | 0.01 | 70.44 | 100 |

Source: processed using data provided by the National Office of Trade Registry, 2020.

There were registered six categories of companies (AC, FB, SP, AP, LP and LLC) in January 2019 and nine in January 2020, (AC, EEIG, EIG, FB, SP, AP, OJSC, LP and LLC).

Most registrations in January 2019 were made for companies of the LLC type (13016 companies, 83.22% of total registered companies), and the fewest for the companies of the OJSC type (4 companies, 0.03% of total registered companies). APs are second most registered companies, 1872 companies or 11.97%. SPs reached 659 companies, 4.21% of registrations, and FBs 67 with 0.43%, respectively.

Most of registrations in January 2020 were also for LLC companies (6897 companies, 70.44% of total registered companies), and the fewest for EEIG, EIG and LP, each with a percentage of 0.01% of total registered

companies. APs maintained the same number as in the previous year: holding the second position, with 2148 companies, amounting to 21.94%. Under SP category, there were 662 companies, or 6.76%, under the new FBs 64, or 0.65%, under the AC category 12, or 0.12%, and finally, under the OJSC 6, or 0.06% of registrations.

In other words, over 80% of the companies registered in January 2019 fell under the LLC category, and less than 1% under the following categories: AC, FB and OJSC. Also, in January 2020, over 70% of the registered companies were LLCs, and under 1% under the following categories: AC, EEIG, EIG, FB, OJSC and LP.

Table 4 presents the correlation analysis for testing the hypotheses H1 and H2. Since the distributions for the number of registrations and closed down businesses by county for January 2019 and 2020 do not follow a normal distribution, so the Spearman correlation coefficient specific to non-parametric data was used to perform the correlation analysis.

Table 4: Correlations between the number of registrations and closed down businesses in Romania

| Variables and indicators | | Total closed down businesses 01.2019 | Total closed down businesses 01.2020 |
|------------------------------------|----------------------|--------------------------------------|--------------------------------------|
| Total registrations 01.2019 | Spearman Coefficient | 0.863** | 0.870** |
| | p values | 0.000 | 0.000 |
| | N | 42 | 42 |
| Total registrations 01.2020 | Spearman Coefficient | 0.881** | 0.946** |
| | p values | 0.000 | 0.000 |
| | N | 42 | 42 |

** Correlation is significant at the 0.01 level (2-tailed).

Source: processed using data provided by the National Office of Trade Registry, 2020.

The Spearman coefficient with values higher than 0.80 as close as possible to the value 1 indicates positive and very strong correlations. Thus, we confirm that there is a positive and very strong correlation (Spearman coefficient = 0.863; $p = 0.000$) between the total registrations of companies in January 2019 and the total closed down businesses in the same period

Also, there is also a positive and very strong correlation (Spearman coefficient = 0.946; $p = 0.000$) between the total registrations of companies in January 2020 and the total closed down business in the same period).

As a result, the hypotheses H1 stating that there is a close link between the total number of registered companies and the total number of closed down

businesses for the period January 2019, and H2 that there is a close link between the total number of registered companies and the total number of closed down businesses for January 2020 – have been confirmed.

Table 5 shows the correlation analysis for testing hypotheses H3, H4 and H5.

Table 5: Correlations between the region and the number of companies registered under the AP category, the dynamics of closed down businesses

| Variables and indicators | | Region |
|--|----------------------|---------|
| Total AP registrations 01.2019 | Spearman Coefficient | 0.308* |
| | p values | 0.047 |
| | N | 42 |
| Total AP registrations 01.2020 | Spearman Coefficient | 0.397** |
| | p values | 0.009 |
| | N | 42 |
| The dynamics of the closed down businesses in 2020 compared to 2019 | Spearman Coefficient | -0.347* |
| | p values | 0.024 |
| | N | 42 |

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Source: processed using data provided by the National Office of Trade Registry, 2020.

If the Spearman coefficient has values above 0.3, it indicates positive and moderate correlations. Thus, we confirm that there is a positive and moderate correlation (Spearman coefficient = 0.308; $p = 0.047$) between the total registrations of AP companies in January 2019 and the region. Also, there is also a positive and moderate correlation (Spearman coefficient = 0.397; $p = 0.009$) between the total registrations of AP companies in January 2020 and the region.

As a result, the hypotheses H3 that there is a link between the region and the number of companies registered under the AP category for the period January 2019, and the H4 that there is a link between the region and the number of companies registered in the AP category for the period January 2020 have been confirmed.

There is a negative and moderate correlation between the dynamics of closed down businesses in 2020 compared to 2019 and the region (Spearman coefficient = -0.347; $p = 0.024$). As a result, the hypothesis H5 that there is a

link between the region and the dynamics of the cancellations in January 2020 compared to January 2019 has been confirmed.

5. Discussions and conclusions

The empirical analysis performed in this paper is based on descriptive statistics and correlations, useful in validating the hypotheses. The analysed data on registered and closed down companies in 42 counties was taken from two databases provided by the National Office of the Romanian Trade Registry.

In terms of registrations, the most widespread form of organization of companies in Romania is the Limited Liability Company (LLC). Probably this happened as the duration of setting up a LLC is 3 working days from the moment of submitting the file to the Trade Registry in the area, where the company's registered office is located. The second most registered companies included the Authorized Natural Person (AP), in this case, there being a major risk associated with the fact that company owners are liable in case of company insolvency with their own wealth, while the partners under LLC are liable in the limit of the subscribed and paid-in capital. As a rule, the AP is more suitable for freelancing (Legal Status of Authorised Natural Persons, Emergency Ordinance 44/2008).

There were registered an average of 372 and 233 companies per county, in January 2019 and 2020, respectively. And, an average of 164 and 116 companies per county were closed down, in January 2019 and 2020, respectively. Comparatively, the share of closed down companies in total company registrations increased by 5.86% in January 2020 compared to January 2019. It is also interesting that the monthly percentage of delisting companies is between 40% and 50% for both the analysed periods of 2019 and 2020.

Most registrations during January 2019 were for LLC companies, and the fewest for OJSC. The APs came in second. Most registrations in January 2020 were also for LLC companies, and the fewest for EEIG, EIG and LP. The second came APs as in the previous period.

According to the results of the correlation analysis, all 5 hypotheses have been validated. Following the correlation analysis, there is a positive and very strong correlation (Spearman coefficient = 0.863; $p = 0.000$) between the total company registrations in January 2019 and the total closed down businesses in the same period. Also, there is also a positive and very strong correlation (Spearman coefficient = 0.946; $p = 0.000$) between the total

registrations of companies in January 2020 and the total closed down business in the same period. Additionally, there is a positive and moderate correlation (Spearman coefficient = 0.308; $p = 0.047$) between the total registrations of AP companies in January 2019 and the region, and there is also a positive and moderate correlation (Spearman coefficient = 0.397; $p = 0.009$) between the total registrations of AP companies in January 2020 and the region. There is a negative and moderate correlation between the dynamics of closing down businesses in 2020 compared to 2019 and the region (Spearman coefficient = -0.347; $p = 0.024$).

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