

**THE DIAGNOSIS OF THE SITUATION OF ROMANIAN ENTITIES  
AND ITS GENERATING CAUSES**

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**Abstract:**

The fierce competition on the free market produces a range of changes regarding the landscape of legal entities, embodied in the entities' creation and development, and also in situations of activity termination as a result of dissolution, liquidation and eventually of their deregistration from the Trade Register records. Using the statistical summaries of the data from the Trade Register of Romania at 31.12.2012 we made the analysis concerning the evolution of legal entities in Romania and of those in Cluj County and we obtained certain significant issues which we are to present below along with commentaries and conclusions drawn from this diagnosis.

**Keywords:** SMEs, financing source, registration of economic entity, insolvency, own funding source, receivable, economic crisis

## 1.Introduction

Within this paper one highlighted the evolution of Romanian entities and also of the individuals and autonomous bodies registered within the National Trade Register in the period December 1990-December 2012 in terms of registrations, mentions and deregistrations. We identified the circumstances that generated this evolution, especially those concerning small and medium enterprises. From the research we drew certain important aspects regarding the financing sources of registered entities and we discovered that own funding sources are predominant, the financing based on loans being used to a lesser extent. In a separate context one elaborated the issue of activity suspension of economic entities.

## 2.Background literature

The study of the entities' issues in terms of operations of registration, dissolution, liquidation, deregistration, insolvency presents a high degree of interest within the specialized literature. Certain researchers (Boța-Avram, 2013) try to statistically explain the situation of economic entities after the economic and financial crisis in terms of management structure, shareholders or actual performances of such entities. In particular, the reason for studying this situation is a consequence of the maze of insolvencies for which the amounts registered in the insolvency files as receivables were of 69.95 billion euros between 2009-2012, indicating that in Romania, in 2012, they equaled 29.72 billion dollars, and the recoveries in the same period were of only 0.43 billion euros (Cicovschi, 2013). The temporal analysis of solvent and insolvent entities from a particular area is frequently studied by researchers. Thus, the evolution of the insurance entities' solvability in the period 1989-1993 concerning the possibility of reducing the costs associated to insolvency operations is being studied (Cummins, Harrington and Klein, 1995). It is frequently approached the impact of voluntary and involuntary insolvencies at regional and national level (Fabling and Grimes, 2005). The insolvency operations generate high costs which are borne by commercial partners and authorities at varying extents (Mayes, 2005). The elaborated studies take into consideration long periods of time in order to highlight the statistical correlations between different variables and the incidence of insolvency operations (Lepetit & Strobel, 2013, Sanchis et al, Richardson, 2007, Rushinek, 1987, Mervyn, 1984). Other authors (Berinde, Răchișan & Groșanu, 2013) make exhaustive stratified studies to emphasize the frequency of insolvency operations in comparison with other modification operations concerning the structure of social capital or of the activity: transfer of headquarters in other regions of the same country, activity suspension for a limited period of time, liquidation, deregistration.

## 3.The issue of Romanian entities

Before the actual elaboration of the mentioned issue, our message to the entities named "trading companies" is to recall the obligation to change within two years this denomination with the term of "company" starting from 01.02.2012 (art.79, Legea 76/2012 for the application of law 134/2010 concerning the Code of Civil Procedure). According to art.1, paragraph 1 from Law 31/1990, republished and updated, individuals and legal entities may associate by creating companies with legal personality for self-profit, in order to produce goods and carry out services for sale and purchase to obtain profit.

Thus, in Table 1 we will highlight the operations registered at the National Trade Register at national level and at the level of Cluj County. The diagnosis of the data presented in the table indicates that at national level there were recorded 16.032.384 operations performed by categories, which represents 100%, from which at the level of Cluj County there were performed 706.752 operations, namely 4.41% from the total of operations performed by categories at national level. Compared to the national share of 4.41% registered by

Cluj County, it is significant the fact that the 108.288 registrations represent 4.62% being superior to the total of operations performed by categories at national level, which represents a positive aspect for Cluj County.

From the total number of deregistrations at national level of 952.685 operations, Cluj County registers only 37.658 deregistration operations, namely 3.95% from the total of operations performed by categories, with a percentage of deregistrations at national level of 5.94%.

These significations reveal that Cluj County has an important share in the total of registration operations and it is distinguishing itself by a low percentage of entity deregistrations in comparison with other counties, especially if we are to take into consideration that the number of operations performed by categories by each county.

The diagnosis of the operations performed by categories in Romania and the percentage of each category of operations at the level of every county are presented in table 2. The essential category of operations, namely registrations, has a percentage of 15.32% in Cluj County. The level is higher than the one registered by this category of entities at national level of 14.63%, highlighting the entrepreneurial spirit, initiative and responsibility. The percentage of deregistrations at the level of Cluj County of 5.33% from the total of operations by categories is low in comparison with the percentage of deregistrations from the total of operations performed at national level of 5.94%. If we make the analysis only at the level of Cluj County, we can observe a significant detail about the fact that registrations represent 15.32% from the total of performed operations in comparison with deregistrations which register 5.33% from the total of performed operations (706.752 at the level of Cluj County, therefore approximately 3 times less deregistrations than registrations).

In this context, Cluj County, analyzed in terms of percentages of deregistrations from the total of operations performed by categories, occupies the 4<sup>th</sup> rank from the total of counties, with one of the lowest percentages of deregistered entities after Braşov (4.32%), Brăila (4.59%) and Gorj (4.71%), indicating that these counties have a significantly smaller number of operations on categories which gives Cluj County priority.

Therefore, the analysis of the situation of operations performed by categories reveals a positive aspect concerning registrations in the total of registration operations performed at the level of Cluj County of 15.32% and also the low percentage of deregistrations of 5.33%.

Regarding the registration operations, we are further presenting their evolution for every year in the analyzed period according to the data in table 3. The statistical diagnosis of Romanian entities' registration in the period December 1990 – December 2012, reveals in the first place the effects of the economic and financial crisis which spread worldwide adversely affecting the entity registrations in Romania, especially after 2008, when their number diminishes, with a slight recovery trend but below the registrations in 2008.

The diminishing number of registrations in Romania in the analyzed period is not to be solely attributed to the effects of the generalized economic and financial crisis. In our opinion, it is a consequence of the incorrect management of the economy towards another direction that economic consolidation through new investments. It is also a result of the political instability and therefore of the withdrawal of the external and internal investors.

A significant aspect concerning the situation of Romanian entities is the source of the registered entities' capital. From the analysis and discussions on this issue we drew some conclusions based on the summarized data presented in table 4. The analysis of the financing sources of registered entities in the period December 1990 – December 2012 highlights an important aspect concerning Cluj County, namely its placement in terms of own financing sources on a higher level compared to the percentage at national level. The own financing sources of entity registrations within the analyzed period at national level is of 99.47% in

comparison with the registrations from Cluj County in the same period, financed from own sources which represent 99.67%. Therefore, at the level of Cluj County, an average slightly above the national level shows stronger involvement of investors in business financing compared to setting up bank deposits, for example.

If we analyze the financing sources for state-owned entities, respectively the number of administrations and entities we can draw an interesting conclusion at national level. The registered entities with this financing source hold 0.17% from the total of entities registered in this period. The investors of Cluj County agree to a lesser extent this way of financing, which more often are materialized in modest results or even losses.

The same reluctance of Cluj County entrepreneurs can be observed in the number of entity registrations for which the financing source is the mix capital, respectively public and private, for the entities to which the percentage of this source of financing is at national level of 0.37% compared to which at the level of Cluj County they represent only 0.25% which denotes a certain reserve in associating the private and public entrepreneurial intentions.

To conclude, from the analysis of financing sources of registered entities in the mentioned period one could emphasize the concern and entrepreneurial initiative in the business world of those from Cluj County and also the investment of own funding resources and the reluctance to finance entities with majority state capital.

The analysis of registrations by type at the National Trade Register, by county and by category of traders is presented and discussed based on the data from table 5. The analysis of entity typology indicates that at national level they hold from the total of registrations in the mentioned period a percentage of 67.92% in comparison to which Cluj County registers a percentage of 69.08%, above the value registered at national level, confirming the investors' orientation in the County of Cluj towards this investment typology. If we consider the individuals registered in the analyzed period it results the fact that their percentage at national level of 31.70% surpasses the percentage held by this type of registrations at the level of Cluj County of 30.67%. This indicates the orientation of investors from Cluj County towards this type of company to the detriment of registered individuals. Regarding autonomous bodies we found a percentage of 0.06% from the total of registrations at national level in comparison with a lower percentage of 0.05% at the level of Cluj County.

After analyzing the cooperative companies in the above mentioned period in terms of registrations we can observe that they hold 0.10% from the total registrations at national level compared to the percentage held by this type of entity at the level of Cluj County, where they hold 0.07%, which leads us to the conclusion that cooperative companies are less supported by investors.

We cannot fail to notice that this type of entity originates from an older structure of the national economy and that now most of them register lower levels of economic activities per se, their survival relying on incomes from the rental of premises.

Therefore, analyzing the number of registrations at the National Trade Register by county and category of entity in the period December 1990 – December 2012 highlights the primacy of investors of Cluj County in companies created after 1990 with a percentage of 69.18% compared to 67.91% held at national level, a reluctance in investing in autonomous bodies.

#### **4. Conclusions**

The aim of this paper is consistent with the one specified in Law 31/1990, republished, to contribute to business development by harnessing the investors' initiative to engage in registration operations in order to produce goods and services to obtain profit.

In this context we submitted to a detailed and relevant analysis the situation of Romanian entities in the period December 1990 – December 2012 mainly using the statistical summaries provided by the National Trade Register and professional judgment. Interesting aspects have emerged on the structure, financing sources, development, suspension, liquidation and deregistration of companies, using public data presented at national level and at the level of Cluj County and to a lesser extent comparisons of these data between counties.

A first clarified issue concerns the diagnosis of operations performed by category within the Trade Register in the analyzed period, according to which at national level there were 16.032.384 operations from which 4.41% in Cluj County, materialized in a number of 706.752 operations granting it the second place.

We consider that the percentage of registrations is significant in comparison with all performed operations. At the level of Cluj County it registers 4.62% which is higher than the national one of 4.41% and significantly superior compared to the percentage of other counties.

Another significant aspect is connected to the entity deregistrations at national level of 5.94%. At the level of Cluj County the incidence is of 37.658 entities, namely a percentage of 3.95%. Therefore, Cluj County holds the most important position in terms of registrations and it records the lowest rate of deregistrations in the period December 1990 – December 2012.

From the analysis of operations performed by category at national level we can observe a positive aspect at the level of Cluj County. The percentage of registrations at national level is 14.63% compared to which Cluj County accounts for 15.32%. Regarding deregistrations at national level, they represent 5.94%, while Cluj County registers a percentage of 5.33%.

The fact that deregistration operations ranks Cluj County on the fourth position after Braşov (5.33%), Brăila (4.59%) and Gorj (4.71%) noting that for these counties the number of performed operations on each category is very low, which ensures the primacy to Cluj County.

If we submit to the diagnosis only the registration operations in the mentioned period, we can conclude that their evolution is strongly influenced by the economic and financial crisis in a negative manner, especially after 2008, with a slight trend of recovery.

The dynamics of the above mentioned operations must not be attributed only to the financial and economic crisis. It is also a result of the mismanagement of the national economy in a different direction than towards production and services, namely towards consumption, withdrawal of foreign investors, investors' reluctance to invest.

If we focus the analysis on the financing sources of the registration category we find that at national level own sources have 99.47% in comparison with those registered at the level of Cluj County, i.e. 99.67%.

We believe that a wide-ranging picture of the situation of Romanian entities cannot be convincing without revealing the consequences of the maze of insolvencies for which the receivables listed in the insolvencies files in the period 2009 – 2012 are of 69.95 billion euros, and the recovered amounts are of only 0.43 billion euros.

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Table 1: Operations performed by different categories of entities at the Trade Register in the period December 1990- December 2012 at national level and at the level of Cluj County:

Data relevance	Total of performed operations		From which:					
	Number	Percentage	Registrations		Mentions		Deregistrations	
			Number	Percentage	Number	Percentage	Number	Percentage
Total Romania	16.032.384	100,00%	2.345.083	100,00%	12.734.610	100,00%	952.685	100,00%
Cluj County	706.752	4,41%	108.288	4,52%	560.806	4,40%	37.658	3,95%

Source: National Trade Register of Romania

Table 2: The situation of operations performed by categories at the Trade Register in the period December 1990 – December 2012 at national level and the percentage of each category of operations in Cluj County:

Data relevance	Total of performed operations		From which:					
			Registrations		Mentions		Deregistrations	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Total Romania	16.032.384	100,00%	2.345.083	14,63%	12.734.610	79,43%	952.685	5,94%
Cluj County	706.752	100,00%	108.288	15,32%	560.806	79,35%	37.658	5,33%

Source: National Trade Register of Romania

Table 3: Evolution of registrations at the National Trade Register in the period December 1990 – December 2012

Period	Number of registrations	Structure %
Total at 31 December 2012, from which	2.345.089	100,00%
Period 1990-2003	1.119.100	47,72%
Year 2004	144.284	6,15%
Year 2005	153.464	6,80%
Year 2006	135.371	5,77%
Year 2007	144.788	6,17%
Year 2008	144.172	6,15%
Year 2009	116.024	4,95%
Year 2010	123.148	5,25%
Year 2011	133.190	5,68%
Year 2012	125.603	5,36%

Source: National Trade Register of Romania

Table 4: The number of registrations in the Trade Register on counties and the sources of capital in the period December 1990 – December 2012

Data relevance	Total of performed operations		Fro which:						
			Private capital, from which				Majority state capital		Mix capital
			Individuals	Entities	Cooperative companies	APJ	Autonomous bodies	Entities	Entities
	Number	Percentage	Number	Number	Number	Number	Number	Number	
Total Romania	2.345.089	100%	743.389	1.581.235	2.167	5.091	1.384	2.456	8.557
Cluj County	108.288	4,62%	33.203	74.495	68	165	52	44	261

Source: National Trade Register of Romania

Table 5: Number of registrations at the National Trade Register in the period December 1990 – December 2012 by counties and categories of traders

Data relevance	Total of performed operations		From which:							Cooperative companies	APJ
			Individuals	Economic entities (1.592.248)				Autonomous administrations			
				General partnership	Limited partnership	Limited liability companies	Joint stock companies				
Number	Percentage	Number	Number	Number	Number	Number	Number	Number	Number		
Total Romania	2.345.089	100,00%	743.389	32.688	1.636	1.523.455	34.469	1.394	2.157	5.901	
Cluj County	108.288	4,62%	33.203	2.112	21	71.276	1.391	52	68	165	

Source: Source: National Trade Register of Romania