
THE SITUATION OF ROMANIAN SUBSIDIARIES OF ENTERPRISES - CONCENTRATION AND CONTROL

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Abstract

In this article, the authors focus on analyzing the situation of enterprises operating in the economic system of our country. Starting from CANE Rev. In our country, most of the private enterprises are active in the retail and wholesale sectors, construction, manufacturing, professional and technical-scientific activities, real estate transactions. These are founded by Romanian investors but especially by foreign investors. The Romanian enterprise groups have formed as a result of connections that exist between them, as a result of the capital source and from this point of view and subordination, the control is carried out by the respective companies. In this respect it is studied that the majority of the Romanian enterprises with Romanian residence decreased as a number, while the ones with foreign residence have taken and concentrated in groups consisting of two, three or more units legally established. The number of foreign multinational enterprises has increased, together with the reduction of the number of enterprises set up and controlled by Romanian investors. Multinationals play an important role, with the authors presenting significant figures and showing what is the current situation, the trend in the future, and especially the way in which the Romanian enterprises will evolve and consequently the Romanian economy. In support of these assertions, a series of structures, graphs and series of data are provided which provide a possibility of correct interpretation. Here are a series of other issues that relate to the payroll system, the perceived system of facts and much more.

Keywords: group of companies, trading company, capital, structure, control, concentration

JEL Classification: L32, P12

Introduction

In this article, the authors rely on the in-depth study on the emergence of enterprises, their development, their constitution into groups of enterprises, and from this point of view, significant data are presented in connection with this evolution. The survey shows that the top three countries, Germany, France and Italy, are the ones that control the largest number of business subgroups established in Romania, acting across the entire structure of the national economy. There are a large number of enterprises that are set up in confined groups of foreign natural persons and less by foreign legal entities. Subgroups of entrepreneurs are different from each other, and this has on one hand a positive effect and on the other hand it has a role that can be interpreted as not being able to achieve the leap in the value of production on the basis of which to ensure economic growth. The distribution of business groups in Romania by economic activity is in the wholesale and retail sectors, the repair of vehicles and motorcycles, which have a particularly large share, more than one third of the total set of business groups. There are construction, industry, professional activities, real estate transactions and more. Resident groups of companies operating in Romania are somewhat in the same fields of activity but their number and share in the total enterprise groups is much lower and this reduction trend is likely to continue in the next period. The authors focus on presenting a series of subgroups of enterprises that have been established in concordance with the CAEN Rev. 2 from which it results how they evolved and there is a certain trend of evolution in the future. From this point of view, we can extend the analysis to the number of employees, the level of their salaries, the way in which the tax liabilities are paid by these subgroups and many other aspects that make sense of the evolution of these developments in the economic system. Suggested graphs highlight the structure of the Romanian subgroups of enterprises according to the number of employees or the type of multinational or resident groups. The data is edifying and the authors sought to highlight the main advantages of these subgroup concentrations, but also some disadvantages in their work.

Literature review

Ambos, Andersson and Birkinshaw (2010) analyzed the effects of initiatives in multinational subsidiaries. Anghelache, Anghelache and Kralik (2012), and Anghel and Calota (2016) applied the statistical-econometric tool to study the performance of a firm. Anghelache and Anghel (2017) analyzed the evolution of Romania in the decades after its accession to the European Union. Behrens (2015) examined decision makers' decisions in managing innovation portfolios. Cavanagh, Freeman, Kalfadellis and Cavusgil (2017) analyzed

the concept of autonomy of the subsidiary. A similar theme is developed by Gammelgaard, McDonald, Stephan, Tüselmann, and Dörrenbächer (2012) who studied the effect of increasing branch autonomy and network relationships on performance, as well as by Männik, Varblane and Hannula (2005) the consequences of the states on the autonomy of a multinational corporation's subsidiary in the countries of Central and Eastern Europe. Conforto and Amaral (2010) investigated a method used to plan and control innovative projects. Costello and Costello (2009) researched the interests of subsidiaries and headquarters in multinational corporations. Dahms (2017) studied the performance of subsidiaries in emerging economies. Ganguly, Nilchiani and Farr (2009) rated agility in corporate enterprises. Manolopoulos (2018) analyzed the performance of multinational subsidiaries in periods of economic uncertainty. Pisoni, Onetti and Fratocchi (2010) addressed aspects of the headquarters / subsidiarity relationship of Italian companies in the Central and Eastern European countries. Turner, Ledwith and Kelly (2010) analyzed aspects of project management in small and medium-sized enterprises.

Research methodology, data, results and discussions

This indicator regarding the control and determination of the value of the activity in the Romanian enterprises is a new hue, year 2016 being the year in which the last methodology was carried out. Data sources for accurate analysis and interpretations of Romanian business groups and sub-groups controlled by Romanian or foreign residents are based primarily on data from the National Trade Register Office in Romania, but also on statistical research on financial relations exists between companies and companies in Romania. Eurostat data sources that refer to multinational enterprise groups are also used. Such data are based on how groups, head group, multinational enterprise groups, business subgroup, resident group, all but all are defined in the methodology used to perform this analysis. By a legal entity, we understand an economic operator that has its own property, concludes contracts with third parties and has legal personality. These legal units may be authorized natural persons, individual business companies, family businesses or legal entities that are re-affiliated to other enterprises.

The group of companies (companies) consists of the number of such enterprises linked to a leader (leader) who is designated to control a large share of capital, in the sense that any company having a net capital is interpreted as an enterprise that is taken into account. By group head, according to the methodology used, we understand the legal uncontrolled unit directly or indirectly by another legal unit and which controls at least one branch of this society that we are discussing. In Romania, due to foreign direct investments

for the development of already established companies but also for the control of other companies that have already been privatized or companies that have been set up, we can see that through a group of multinational enterprises we understand a group of companies consisting of at least two units legally established but located in different national territorial spaces. In other words, located in two different countries. These are, in fact, the multinational companies or societies that are developing and which have also developed in Romania in the last period of time. Groups may also be subordinated to subgroups of enterprises, in the sense that, depending on the activity, some connections and places of residence are different. Thus, a business subgroup consists of legal units or businesses of a multinational group that is resident in that country, so that in a group of multinational enterprises we can distinguish a subset of Romanian units, those resident in Romania as registered companies, other subgroups being resident in other countries and forming a much more developed multinational group of companies.

We talked about groups of companies resident in Romania or in another country, and we can have either groups or sub-groups of units (companies) of the situation so presented that consists of groups of enterprises whose legal units are all resident in the same country. On the territory of Romania, we encounter foreign companies that are connected to Romanian commercial companies, and in most cases these with a larger amplitude can constitute groups of enterprises resident in Romania or in another country.

These methodological elements simplify in a certain way the way these groups and sub-groups of enterprises, resident, non-resident, are included in international consortia, or reside in Romania, or residing abroad. In a much more interesting classification we can find groups of Romanian companies that are run by individual investors or foreign trade companies and are active in Romania. In this regard, starting from the fact that the head of the group or the leading society according to the size of the share capital, we also talk about the control of the groups and subgroups of commercial companies. Such classification or disclosure of data is also important in view of the fact that in deciding on the future development of multinational companies, the capital increase of multinational companies, as well as the strategy and the market policy, it decides how it is natural, most of the subscribed and paid-up share capital. Analyzing the situation of a country, in this case Romania, we can express appreciation in a positive or sometimes negative way. For example, the development of companies within the groups or sub-groups of foreign-controlled companies so controlled by them presents positive elements such as business development by increasing capital, by conquering new markets by improving management in commercial companies by increasing wages

based on the profitability of these companies, employment, and many other benefits that result from this perspective. It is important to see that groups of companies led by outside companies or individuals have a capacity to be present on the market for specific multinational products on advantageous and much better represented markets in the future. On the other hand, the existence of groups and sub-groups of enterprises run by foreign natural or legal persons operating in our country raises some problems regarding compliance with the tax law. We have a prime example of transferring tax liabilities from employer to employee. Of course, it is a law specific to the Romanian socio-economic system, in which many societies, groups of companies or subgroups conducted externally have found other formulas to comply with this legal provision, sometimes using the existing framework to conclude and cancel labor contracts, to use the opportunity to reduce part of wages, which is hard to counteract given the nature of the multinational or the situation. In other respects, it should be noted that many groups and sub-groups of foreign-controlled trading companies controlled by foreign natural or legal persons do not fully comply with the EU Directive on the payment of tax liabilities on income generated where they are produced .

From this point of view, some attempts by the Romanian legislature to enforce this European Union Directive have been hit by the refusal of these multinationals, groups or subgroups of companies that have not found other formulas and thus avoided paying tax liabilities in the specified terms through the EU Directive.

That is why a study of the existing existence of controlled groups and subgroups of enterprises shows us what is the stage in the Romanian economy. We have said for now that 2016 is the year when this methodology was first implemented for the groups and subgroups of enterprises that control the activity in Romania. In this way, in the coming years, we can make an assessment of how this issue evolves, how the national interests of Romania are fulfilled to a greater or lesser extent. Another analysis is structured in the countries where the legal units residing outside the country control the activity in our country. From this point of view, we find that the most powerful countries in the European Union, namely Germany, France and Italy, are in this order in the top of the countries that control subgroups of Romanian entrepreneurs and we can see that these groups and subgroups of enterprises controlled by these countries , they are often subject to the legislation of the countries where they reside. This representation is also interesting in terms of the way in which the study was carried out or was carried out in this work. Another classification or study referred to the object of activity according to CAEN Rev. 2 of enterprises, of controlled enterprises from outside. In descending order, we

refer to the wholesale and retail activities, the repair of motor vehicles and motorcycles, which account for 35% of the total number of business groups in our country. Then at the section of CANE Rev. 2 - Constructions we find 11% of the total enterprise groups having this object of activity, equal to that of the enterprises in the manufacturing industry having the same share in the total number of enterprises with special activity in Romania. There are 9% of the total number of professional, scientific and technical enterprise groups that can be considered as a good percentage in the sense that this activity performs the applied technical and scientific research which leads to the improvement of the economic activity and to all the other activities carried out by those undertakings on the territory of Romania. In the latter group we find a 8% enterprise group section, which carries out real estate transactions capitalizing on the market and the advantages offered by the Romanian market. Below we will present a series of data on Romanian business groups and subgroups by comparing the ones controlled internally and externally, the result clearly becoming one that shows a smaller participation of the Romanian enterprises (individuals or legal entities) the activity in one or the other or the whole of the national economy and this is a theme of meditation for the future development of the social capital to be developed in companies (companies) with domestic capital residing in Romania.

In Romania, in 2016, 78181 business groups were identified, out of which 5311 resident groups and 72870 multinational enterprise groups (271 controlled internally and 72599 controlled abroad).

In 2016, out of the total of the groups of companies identified in Romania, about 7% were resident, over 90% of which were made up of two or three legal units.

Resident business groups operate predominantly in the following areas: wholesale, manufacturing, professional, scientific and technical activities, other service and construction activities. Of these, most of the groups are conducted externally by companies or individuals in Germany, France, Italy, and other states mainly members of the European Union. In this context, it is interesting to note that Romania could use this umbrella to participate in research projects, economic projects, industrial projects that take place within the European Union, on the basis of the development plan and especially of the resources offered by the European Union.

Compared to the share of employees, most of Romania's business sub-groups are controlled from Germany, France and Italy.

In 2016, out of the total number of multinational foreign enterprise groups identified in Romania, 13867 are controlled by foreign legal entities, and 58732 are controlled by foreign natural persons.

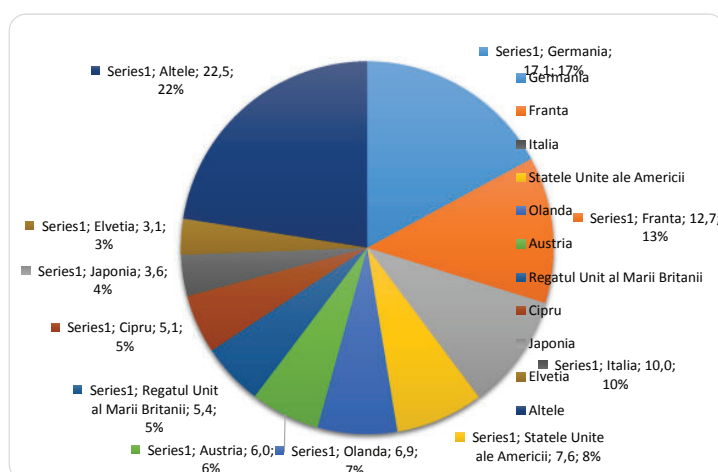
The results of 2016 indicate that, depending on the number of employees, the subgroups of enterprises controlled by legal entities or natural persons in Germany (17.1%) rank first, the second are those controlled in France (12, 7%), and the third place is controlled in Italy (10.0%).

Depending on the share of the number of employees in total multinational controlled multinationals, the subgroups of controlled enterprises in Germany predominate in Section C - Manufacturing (9.5%), Section G - Wholesale and retail trade; Repair of motor vehicles and motorcycles (2.9%), and in section M - Professional, scientific and technical activities (2.3%).

For the sub-groups of controlled enterprises in France, 6.2% is in Section C - Manufacturing, 2.6% in Section G - Wholesale and retail trade; Repair of motor vehicles and motorcycles.

Structure of Romanian subgroups of enterprises, by weight of employees (%)

Figure no. 1



Source: National Institute of Statistics - Press release no. 103/02 May 2018

From the study and interpretation of the structure diagram, we find that Germany, France and Italy are the countries with the largest share of the under-controlled Romanian business groups.

Conclusion

From the study, the authors drew some conclusions. This is the fact that at the level of 2016, multinational enterprise groups were controlled from the outside in an overwhelming percentage. The number of residents has fallen and their importance in economic development is even insignificant. Another conclusion is that these groups of enterprises have been set up and controlled by foreign investors who have placed capital, which have put their emphasis on capitalization, on the development of those branches which are important for the national economy. The concentration of subgroups on certain countries is due to the way in which they carry out permanent activities in our country. The number of employees is of multinationals, of the groups of companies that are controlled from outside. This is a positive fact because it improves management forms, increases profitability as well as many other aspects. Looking deeper into this analysis, however, we find that the Romanian tax system does not fully respect the European Union's recommendations on the taxation of all national, multinational companies where they operate. It would be necessary for the legislative system that is sufficiently comprehensive to be applied not only in the letter but also in its spirit without trying to circumvent it by so-called „tax optimization” techniques.

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