

# ***Local Public Management and Business Environment in Time of Globalized Economic Crisis***

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**Abstract:** *Local public management in all states is strongly influenced by the global economic crisis. Problems in the local economy significantly influence the capacity of public institutions to create and deliver services for business environment and citizens. Globalization and the crises context have influenced the local economic development in Romania and determined the local governments to adapt policies according to them. This paper presents part of the results of a specific research study about local public management in the period of globalized economic crisis and the government policies for increasing the local economic development. The sample was composed by small and medium size enterprises from Bucharest. They are specialized in export of products in three main areas. The research methodology includes a questioner followed by a semi-structured interview. The main findings of the research are useful for the local business environments actors and the local authorities too. The paper ends with some recommendations for Romanian central and local governments for supporting the local business environment in a context of an increased globalized crisis.*

**Keywords:** *local public management; globalization; business environment; governance; local development.*

**JEL:** *F63; F68; Q24; Q58.*

## **Introduction**

Several years after the beginning of the crisis, the Romanian society started to feel its weight, and some important economic, political, social and administrative changes started taking place. Although our country has some important advantages such as: highly qualified and low-waged labor force, the impact of the economic crisis upon the economic and social environment has been strong enough (Androniceanu, 2011a; Ciobanu, Androniceanu, 2012). In recent years foreign investments started having a bigger importance in the Romania's economic upswing, as a way to minimize the effects of the global crisis (Androniceanu, Drăgulănescu, 2012). Nevertheless, foreign investments in Romania have diminished a lot in the first years of crisis. Since 2011 can observed a slightly small recovery, which continued in 2012 and 2013. The analyses made by the experts demonstrate that, although the Romanian business environment

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waits for an important foreign capital infusion, in reality we can observe that our country's fiscal and financial policies are not attractive enough to determine a rise in the amount of foreign investments. Another important aspect, often mentioned by the representatives of foreign investors in Romania is the political instability (Androniceanu, 2011b). This generates both discontinuity and insufficient consistency in economic policies and frequent changes in fiscal policies and in business environment's specific legislation. These are just a few reasons mentioned by potential foreign investors.

The global crisis determined the Romanian managers to make important changes in the way they handle their businesses. The enterprises are frequently constrained to concentrate, firstly, on knowing the market and the customer's requests and, only secondly, on the production process. Important changes are made in the decision-making process too, because managers take tactical and strategic decisions which integrate a diversity of variables: economic, cultural, social, environmental protection. The crisis context determined the Romanian managers to make strategic decisions by considering not only the international and regional particularities of the economic and politic environment but also a variety of risks of the national and urban context (Androniceanu, Ivan, 2012). A part of them succeeded to adapt and to develop their businesses both in Romania and abroad. An important role in their business development had the informational technologies (Abaluta, 2006). Others continue to be preoccupied by valorizing some opportunities to cooperate with large multinational companies, which already have businesses in Romania and wanted to expand or to enter the Romanian market. The public-private partnership is one of the most common ways of cooperation between companies and public institutions. (Androniceanu, Ristea, 2012)

### **1. Literature review**

Professor Thomas Levitt had an important role in the integration of this term in economic analyses, by publishing in 1983, the article "Globalization of Markets". In a knowledge-based economy, the globalization facilitated the spread of the crisis effects, beyond national borders, where the states exert their right to govern (Burlacu, Jiroveanu, 2009). The globalization determines a succession of changes, which despite of the fact that take place in one part of the globe, generates positive and negative effects, in other parts of the globe. (Androniceanu, Drăgulănescu, 2012). The entire process was supported by the informational technologies integrated both in private and public sector (Colesca, 2005).

In the opinion of Joseph E. Stiglitz, winner of the Nobel Prize in economics, "globalization determines the acceleration of international circulation of ideas and information, common cultural actions and stimulates the creation and development of a global civil society. The biggest hope about globalization is that it will help the growth of the global standard of living." (Stiglitz, 2008)

## 2. Research methodology

The main objective of the research was to study the impact of globalization and government policies to the small and medium-sized exporting companies in order to formulate some recommendations for supporting the development of the local business environment.

Through this research we aimed to know:

- the influence of globalization on firms and local development;
- the impact of government measures on firms and local development;
- the main difficulties of the export companies in time of crises and their expectations from the national government.

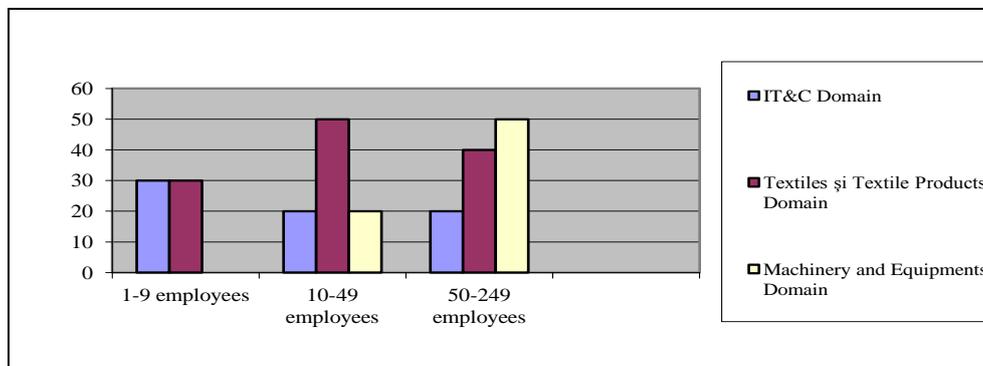
For this research were selected 26 small and medium enterprises located in Bucharest. They are specialized in export activities in three areas: information technology and communications (IT&C), textiles and construction of machinery and equipment. Table 1 shows the number and structure of the sample. Figure 1 contains the number of employees of companies involved in research. The criteria that led to the formation of this sample were their representatives in the field and economic evolution since the beginning of the economic crises so far.

**Table 1. The structure of the sample**

Area of activity	Number
IT & C	7
Textiles	12
Machines and equipments	7
<b>TOTAL</b>	<b>26</b>

Figure 1 shows the structure of the sample based on the employee's number.

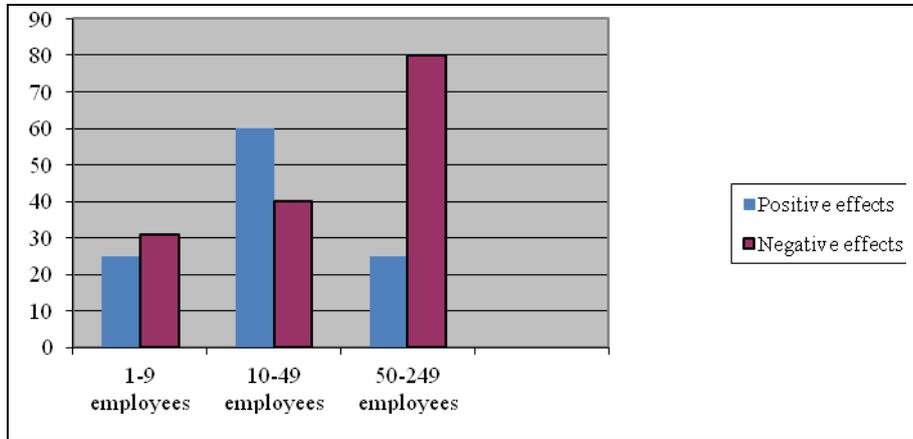
**Figure 1. The number of employees of companies involved in research**



The effects of globalization on the Romanian business environment are shown in Figure 2. According to the research results, 57.7% of the company's

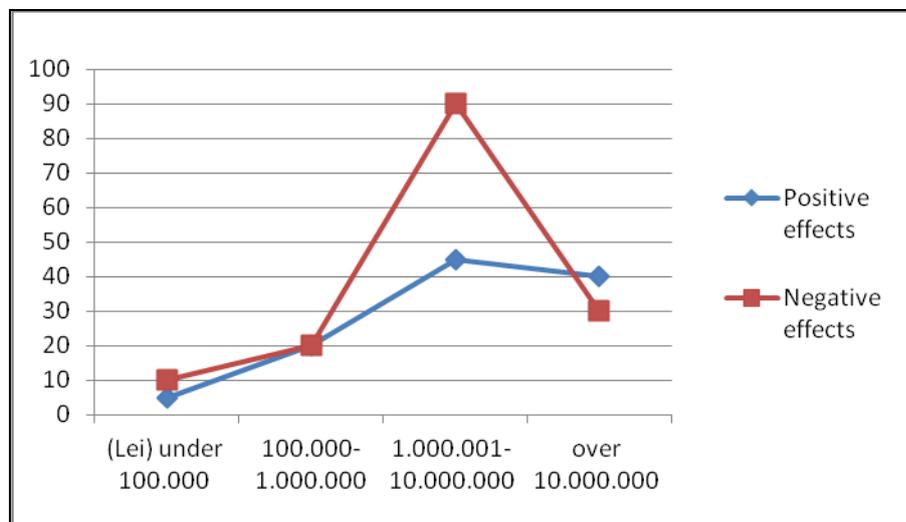
managers believe that globalization has had negative effects on their firms and to the local development. However, there are some differences between them. It can be seen that firms from textiles area have felt very strongly both the positive and the negative aspects of globalization, while the other companies were more unfavorably influenced by globalization.

**Figure 2. The effects of globalization to the local economic development**



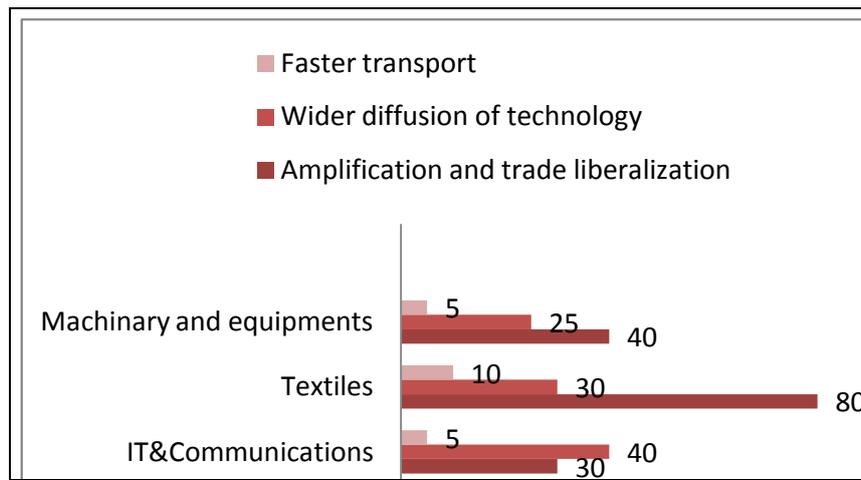
The impact of the globalization and governmental policies was high and the effects are visible in the turnover of the companies surveyed. Figure 3 shows this influence clearly.

**Figure 3. Effects of changes in turnover**



The participants to this research study revealed that globalization has had advantages for the economic development. As shown in Figure 4, the majority believes that the globalization has had many advantages for the development of their business and for local development. The main benefits of globalization mentioned by all managers were: the trade liberalization; commercial investment growth and increased trade flows. Research has shown that, depending on the area, the opinions of managers are slightly different. Thus, in the case of IT & C companies, the main advantage highlighted by the managers was wider diffusion of technology while for textile firms trade liberalization has been the main advantage, as for companies specialized in export of machinery and equipment.

**Figure 4. The main advantages of globalization to organizational development**



Approximately 65.4% of all SMEs in the sample considered that the main disadvantage of globalization is the multiplication of financial and economic crises, but there are many other internal and international factors and variables having an important influence both to their business and the local economic development. Table 2 contains a part of them.

**Table 2. The main disadvantages of the globalization and the impact on local development**

No.	Main disadvantages	Frequency	Share
1.	Deterioration of income distribution	6	23.1
2.	Diminishing the role of nation-state	2	7.7
3.	Multiplying the financial and economic crises	17	65.4
	International competition	1	3.8
	Total	26	100.0

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The research identified the main factors and causes that influenced the evolution of export firms in Bucharest and therefore its economic development. More than half of IT&C companies considered the government policies ineffective with a huge negative impact on their business. We wanted to know the opinion of managers on government measures to reduce the negative impact of the global crisis. We found that over 80% of companies surveyed considered inappropriate anti-crisis measures taken by governments since 2008. Research has shown that cars export companies found in a proportion of about 30% that government measures have been helpful to their businesses. Nearly 10% of textile companies appreciated government measures. The opinions of managers on the government policies to limit the impact of the economic crisis and globalization in the last years are presented in table 3.

**Table 3. Evaluation of government measures by the business environment**

No.	Governmental policies and measures as they were perceived by the local business environment	Frequency	Cumulative Percent
1.	Effective	5	19.2
2.	Ineffective	21	80.8
3.	Total	26	100.0

The research shows that the situation is slightly different for the firms of other two areas. These companies consider that the government policies have helped their businesses in some way, but the support was not constant, nor sufficient. All export firms surveyed mentioned that banking policies have played an important role in their evolution in recent years. Managers pointed out that most banks have changed their lending policies for the small and medium enterprises. They have restricted access to credits and thus they limited the economic development. In addition, the managers of the textile firms mentioned Romanian consumers as having a positive role in their economic development..

**Figure 5. The main difficulties for a sustainable local economic development**

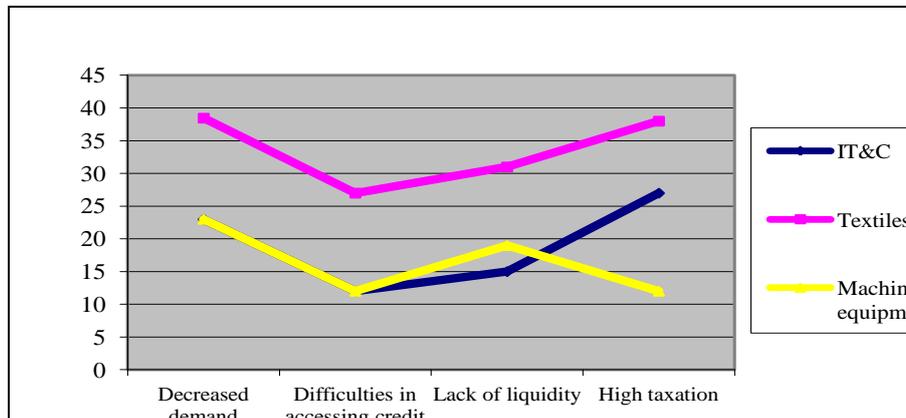


Figure 5 shows the main difficulties of the local business environment during the last years. Research has shown that business firms and local economic development were scored equally the global crisis, government policies and internal management.

In this context marked by ineffective government policies, managers of the export firms have taken steps to mitigate the effects of globalization and world-wide crisis. Research has shown that 65.4% of companies involved in our survey reduced the number of their employees; the other 38.5% diminished the employee wages. Almost 70% of the companies reduced the fixed production cost, mainly due to lower production. More than 70% of companies cut their production and 30.8% have outsourced some of their activities and services.

As can be seen from this empirical research, export firms in Bucharest are still influenced by globalization and economic crisis and expect government policies to respond to their needs. Specifically, the export firms want from Romanian government attractive, coherent and consistent economic and fiscal policies and a stable political environment.

### **Conclusions and recommendations**

The first recommendation is *to increase budget allocations for stimulating the competitiveness of export enterprises*. The analysts argue that it will be necessary an additional state capitalization of EximBank to launch new loan lines and supporting both the SME's and the biggest Romanian exporting enterprises, for those to be capable to continue their activity between ordering and collection of payments. (Androniceanu, Sora, 2011).

The second recommendation is *to support small and medium enterprises by providing consultancy*, due to currency risk. Few of them have hedging strategies, including insurance policies against currency risk. The small and medium enterprises with export activities should be supported by consultancy to continue to attract European funds for investments and human resources training and to diversify their goods and services for increased demands on the internal and external markets.

The third recommendation is *to reduce taxation* for all small and medium enterprises and to diversify incentives for those engaged in export activities.

The fourth recommendation is *to diversify the state facilities and incentives* for the Romanian small and medium enterprises in order to increase their access to foreign markets through: promotion of products and services, fostering communication and partnership in business and entrepreneurial training in export promotion techniques.

The fifth recommendation is *to diversify the funding of products and services* for Romanian exporters, and also to insure the commercial and political risk.

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