

## **POLITICAL FACTORS INTERFERENCE IN COMPANIES' ECONOMIC SPACE**

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**ABSTRACT:** *The influences of the political environment upon companies can be of restrictive or stimulating form (to encourage business world). The political factor is directly involved in managing problems and opportunities that could arise on different markets, through direct regulation interventions, stimulation and direction, legislation and economic policies.*

**KEY WORDS:** *political factors, the relationship between economic and political, corruption perceptions index, the relationship between population and state*  
*JEL classification: M20*

Political factors are specific to every country and mainly represent the structures of society, social classes, political forces, state's involvement in the economy, the stability degree of the political climate.

The political environment specific to a country is the assembly consisting of the political components of the society and the reports between them. The most visible components of the political factor commonly are:

- political status;
- government type;
- political parties system (uni-party, bi-party, multiparty, coalitions);
- the stability degree of the political measures of the current government;
- the historical stability degree of political measures (the analysis is made through a revelation of the national political life past);
- taxes system;
- attitude towards investors and foreign investments;
- economic regulations;
- legislation regarding the protection of the surrounding environment.

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As a form of state, Romania is a republic, and as far as the state structure is concerned, our country is a unitary state and political status is indirect democracy with proportional vote.

Political environment influences trade companies' activity through legislation and decisions. The internal and international climate always affects the activity of the trade company, because it has both direct and indirect implications through: state organization and government, economical policy it promotes, especially through the degree of involvement in economy (under the form of protectionist measures, antitrust policies etc.), appurtenance to economic and political groups and communities, through the integration conception it the economic life and world politics being promoted. All these elements can stimulate or prevent the activity developed by the trade company on the market.

Political power can act externally as well for favouring or only protecting some companies from the inside, through means like establishing some protectionist customs barriers. The influences of the political environment upon companies can be of restrictive or stimulating form (to encourage business world). The political factor is directly involved in managing problems and opportunities that could arise on different markets, through direct regulation interventions, stimulation and direction, legislation and economic policies.

Economic development and economic environment cannot be interpreted without considering the political factor acting in the geographical space. The evolution of the political environment exercises influence upon the economic factor. The provision of a peace and security climate supports the creation of favourable conditions for economic development. *Between the economic and political environment, there is, as mentioned before, a tight connection and influence* (table 1). The relation between the two components can be of various forms.

**Table 1. The relation between the political factor and economic factor**

Influence can be from ...
economic →political
<i>or</i>
political →economic
<i>or</i>
political ↔economic
The relationship between economic and political can be ...
positive
<i>or</i>
positive under some conditions
<i>or</i>
negative

Political changes from December 2004 caused the creation of a new govern, with a new orientation. A major change, influencing the companies' activity is the introduction of the sole taxation quota of 16%.

The first reaction was seen at the stock exchange market where more stocks were purchased. The introduction of the sole taxation quota facilitated the increase of companies' capitals. Up to 4<sup>th</sup> of January 2005 stocks of 800 billion lei were transacted at the stock exchange. The consequences of some political programs are, at present, one of Romania's competitive advantages.

The evaluation of the political climate is of interest in establishing and developing the strategy. The features of the political environment are altered only during its structure evolution and events it is facing. Romania's integration in the European Union, involvement in other organizations and international steps have influenced the political climate of our country. Regarding the political climate there is a constant attention paid to *corruption*, appreciating that most of negative characteristics derive from it.

Together with Romania's adhesion to the European Union, great efforts have made for our country to comply with the requirements regarding the juridical cooperation in civil and penal problems. Under the pressure of integration to the E.U., Romania has initiated corruption and fraud decrease actions. According to *Transparency International* population perceives political parties as the most seriously affected institution by corruption, followed by the parliament and other legislative bodies.

At present, Romania has an obligation regarding corruption reduction, which puts a negative image upon the political environment. Transparency International organization periodically makes a Corruption Global Barometer. Together with this thorough investigation, Transparency International annually determines Corruption Perceptions Index, CPI. According to CPI (table 2), corruption is perceived as more severe in Romania than in other east-European states.

Analyzing Romania's status, in 2008, due to its position at the half of the classification (position 69 of 179 studied countries) it is appreciated that it is similar to region it is a part of (figure 1).

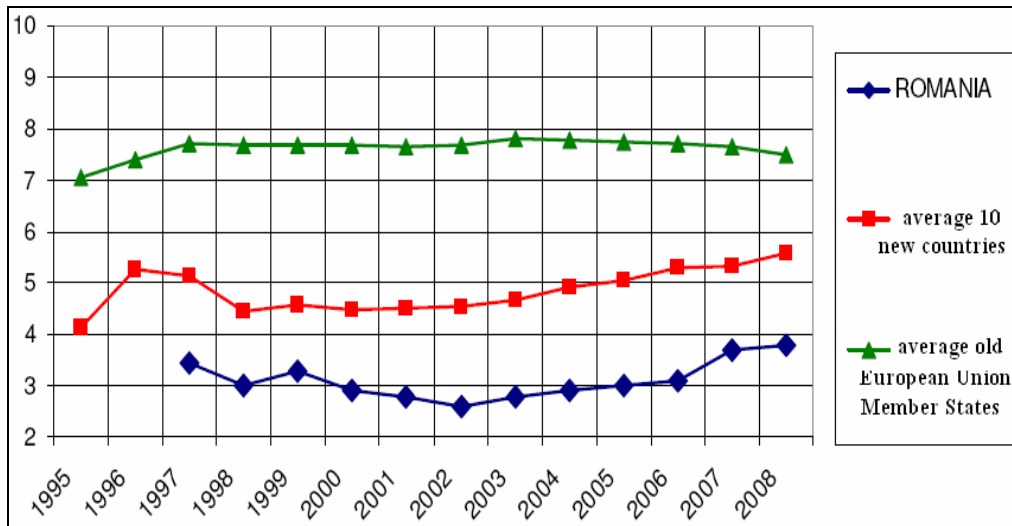
The corruption perception index value, Romania is far from the mean recorded by the European Union. Due to these values the image is a favourable one for an efficient development of trade companies' activities, and not only them, because it endangers the business environment.

The relationship between population and state (represented by administration and public utilities) is negatively influenced, due to the lack of trust and suspicion regarding the correctitude of tariffs, duties, taxes calculation etc. The relationship between the enterprisers and the political environment is also influenced by the features and the climate of the latter. Value Corruption Perceptions Index, Romania is far from average in the European Union. Because these values are a picture under unfavourable efficient conduct of business firms trade, and not only them, as jeopardizing the business.

Table 2. Corruption Perceptions Index, CPI

No.	Country	IPC 2006	IPC 2007	IPC 2008
1	Denmark	9,5	9,4	9,3
2	Finland	9,6	9,4	9,0
3	Sweden	9,2	9,3	9,3
4	Great Britain	8,6	8,4	7,7
5	Austria	8,6	8,1	8,1
6	Germany	8,0	7,8	7,9
7	Ireland	7,4	7,5	7,7
8	France	7,4	7,3	6,9
9	Belgium	7,3	7,1	7,3
10	Spain	6,8	6,7	6,5
11	Slovenia	6,4	6,6	6,7
12	Estonia	6,7	6,5	6,6
13	Hungary	5,2	5,3	5,1
14	Czech Republic	4,8	5,2	5,2
15	Italy	4,9	5,2	4,8
16	Slovakia	4,7	4,9	5,0
17	Latvia	4,7	4,8	5,0
18	Lithuania	4,8	4,8	4,6
19	Greece	4,4	4,6	4,7
20	Poland	3,7	4,2	4,6
21	Bulgaria	4,0	4,1	3,6
22	<b>Romania</b>	<b>3,1</b>	<b>3,7</b>	<b>3,8</b>

Source: Transparency International Romania, Corruption Perceptions Index 2008  
[http://www.transparency.org.ro/politici\\_si\\_studii/indici/ipc/2008](http://www.transparency.org.ro/politici_si_studii/indici/ipc/2008)

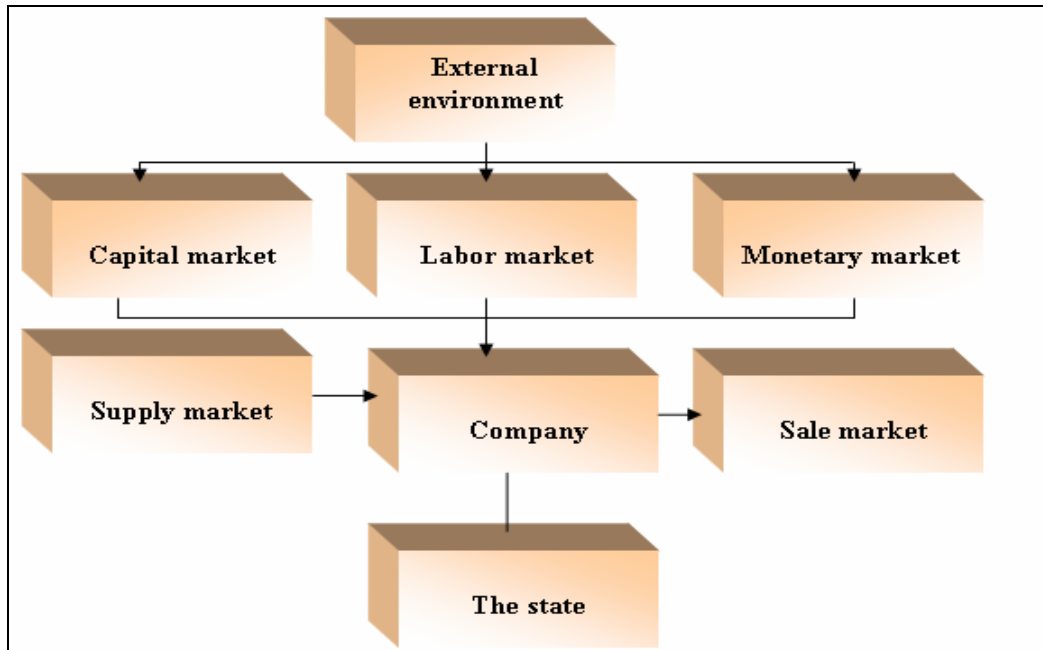


Source: Transparency International

Figure 1. Romania versus the mean of the old countries of the European Union and the mean of the newly adhered states - Corruption Perception Index 2008

The system of the relationships with the environment considers the following reports of the trade company (figure 2):

- supply and sale markets;
- financial markets: capital market and monetary market;
- employment market;
- central and local public administration.



**Figure 2. Company relationships with the state and integrated system of the market**

According to the report called “Paying Taxes 2009”, launched by PriceWaterhouseCoopres Romania in on the 146<sup>th</sup> place in the world as far as duties and taxes payments by a company are concerned and on the last place of 181 studied countries for paying fiscal obligations. In Romania 113 taxes are paid per year and it is among the countries with the fewest number of taxes (table 3).

It is necessary that the political environment, through its “actors” to support profitability of an activity field in correlation to natural resources exploitation way, with the effects it could have in the development of some categories of industries with a higher degree of pollution upon the environment.

In Romania, the political factors is considerably felt in the company’s environment, generating many difficulties to many people, as well as opportunities to others by adopting incomplete, interpretable laws abrogated shortly after publication.

These legislative hesitations even if they can be explained through the need to fast regulate new situations and put the Romanian legislation on new bases, can unfortunately discourage Romanian economic agents’ initiatives and especially those of foreign investors. In the context where potential investors are fewer and fewer,

repeated sudden actions have to be cancelled (for example, pollution tax, that has had negative signals not necessarily due to its contents, but especially through its application term), generating incertitude and negatively influencing the business environment.

**Table 3. Payments - number per year**

Fewest		Most	
Country	Payments (number per year)	Country	Payments (number per year)
Maldives	1	Côte d'Ivoire	66
Qatar	1	Serbia	66
Sweden	2	Venezuela	70
Hong Kong, China, Norway	4	Jamaica	72
Singapore 5	5	Montenegro	89
Kiribati 7	7	Ukraine	99
Latvia	7	Uzbekistan	106
Mauritius	7	Belarus	112
Afghanistan	8	<b>Romania</b>	<b>113</b>

Source: Doing Business Database

All these elements are characteristic, at last, for the political climate of a country, its evaluation being important in establishing national development strategies in the trade field.

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