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ROMANIA IS BACK TO BUSINESS



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“GERMAN COMPANIES BENEFIT FROM THE SIZE OF THE MARKET”

What measures has Romania taken to respond to the coronavirus pandemic? What medium and long-term effects do you expect for the country?

Romania reacted quickly and took early measures to prevent the spread of the pandemic. Schools and kindergartens were closed in mid-March, when the state of emergency was declared. Other measures to prevent and control infections have been introduced, such as the requirement to wear a mask in public transport and in closed rooms.

To support the business environment, the Romanian government has also taken measures to mitigate the long-term economic consequences. These include bank guarantees for SMEs and micro-enterprises, deferrals of loan repayments, deferrals for rent and ancillary costs, changes in the payment deadlines for debts to the state budget, granting free working days for parents, tax support measures and 75% of the (technical) unemployment benefits borne by the state.

The measures were also welcomed by the German economy in Romania, but most companies consider them to be insufficient. This is also evident from the surveys we conducted.

A measure of absolute urgency would also be the introduction of the instrument of short-time work for Romania, especially, in view of the expiry of state support for technical unemployment.

We also see opportunities for Romania as an investment and technology location in this crisis. For example, we are observing that German companies are increasingly looking at the country to identify local suppliers or to invest locally. This enables them to make their supply chains more resilient and more crisis-proof.

How is the German economy represented in Romania? How many German companies operate production facilities and which industries are particularly active?

The German economy is very well positioned in Romania. Numerous German companies have invested here, set up and expanded production sites.

Around 7,500 companies with German share capital are active in Romania - over 10% of foreign companies in Romania are German companies or have a German equity interest. They employ around 250,000 people, generate sales of over 27 billion euros (around 13% of Romanian GDP) and hold a capital stock of more than 10 billion euros.

The first wave of German companies benefited from low salaries, but German companies have been investing in highly automated and high-performance production facilities for many years. Romania is no longer an extended workbench, but is increasingly developing into a location for research and development.



Sebastian Metz

Executive Board Member
of the German-Romanian
Chamber of Commerce and
Industry, Bucharest

Many German production companies are active in the automotive sector and are expanding their activities here. The large German retail chains are also well positioned in Romania.

What makes Romania attractive, in particular, when compared to other Eastern European countries?

Many German companies benefit from the size of the market, with over 19 million inhabitants Romania is one of the larger markets in the EU.

In terms of investment, the size and proximity to Western Europe are very important. The country, which has been a member of the EU since 2007, offers numerous locations for a wide range of investment projects. In particular, the strong industrial foundation that already existed during the communist era is an important advantage.

In addition to the capital - Bucharest, other regions have developed into strong economic centres as well. There are competitive university centres here with which production companies and IT&C companies cooperate successfully. Such cities have become more and more attractive for young people in the past five years and the quality of life has also improved.

In addition, Romania has a well-established vocational school system based on the German model, which is continuously being improved.

The tax system adds to Romania's attractiveness. In addition, there is the EU legal framework that guarantees security for entrepreneurs.

In which regions are the German companies clustered?

The German companies, especially the production companies, are mainly present in the Transylvania and Banat regions, i.e. in the centre and in the west of the country, but also in Bucharest, the country's capital, where service providers are based.

These are also the most developed regions of the country, with the best connections to Western Europe.

To what extent do you observe German companies coming to Romania?

As already mentioned, the investments of German companies are significant for both Romania and Germany. Many of them continue to expand their presence. New companies are also entering the market.

German companies are showing increasing interest in working with local universities, e.g. to advance IT/ digitization or various mobility projects.

MARCUS HONKANEN TO SUPPORT CT EXECUTIVE SEARCH AS SENIOR ADVISOR

We are pleased to welcome Marcus Honkanen as a Senior Advisor to our team. We are thus strengthening the long-term cooperation with Nordic Minds, which is headed by Mr. Honkanen as Managing Partner. The international executive search firm has offices in Germany and Scandinavia.

Marcus advises and supports his clients in the recruitment of management positions in the Central and Northern European markets, as well as conducting pan-European searches for top-tier executive positions. He speaks Swedish, Finnish, German and English, and uses his intercultural insights and cross-industry expertise to source and match the most suitable candidates across markets and functions. Mr. Honkanen has a broad industry expertise – while his skill set is focused on bringing people from different countries and cultures together.

Mr. Honkanen has a Master level degree from the Åbo Akademi School of business and Economics as well as Georg-August University Göttingen. Furthermore, he is the co-founder of the software company FutureHunt GmbH, as well as a Member of the Advisory Board of the German-Finnish Chamber of Commerce.



Marcus Honkanen
Managing Partner,
Nordic Minds GmbH

“ROMANIA’S IMAGE HAS IMPROVED”

How has the corona pandemic affected your business? What sort of mandates are you currently working on in Romania?

Unfortunately, the pandemic also had a major impact on the Romanian labour market, especially in the executive segment.

In certain sectors, there is still uninterrupted demand – these include the IT, food, retail, consumer goods and online trading sectors. On the other hand, it particularly affected the automotive industry, the transport and logistics sector, and of course tourism and hotels, restaurants and catering (HoReCa). This has had a direct impact on our business, as some customers have frozen or closed down ongoing recruitment projects.

The good news is that companies that are currently interested in recruiting new personnel have a very large pool of qualified specialists to choose from. The market, at this point, belongs to the employer. There is now a highly qualified workforce on the market, and at the same time there are comparatively few vacancies. In the past few months, we received almost three times more inquiries for outplacement measures and assessments than during the „normal“ times.

In the meantime, recruitment activity in the companies is picking up again. The companies essentially stick to their long-instinct strategies and use the availability of spe-

INTERVIEW



Sorina Faier
Managing Partner
Elite Searchers, Bucharest



Christian Tegethoff
Managing Director, CT
Executive Search

cialists and executives to increase their staff. Companies can still afford to be more selective when it comes to recruiting and to thoroughly test the candidates through various assessments and thorough reference checks.

The cooperation between CT Executive Search and Elite Searchers primarily relates to filling management positions for international companies, most of which have Western European or US roots. The majority of our clients are corporations and companies with solid financial backgrounds, which means that thus far, they have been able to withstand the economic changes brought on by the ongoing Coronavirus pandemic.

Romania is still interesting for companies from the consumer goods and capital goods sectors both as a sales market and as a production location. Accordingly, we expect to fill more positions in the areas of sales and production in the near future.

In which regions are you mainly active?

Many mandates relate to Bucharest, where most companies have headquartered their Romanian subsidiaries. But we also work regularly at the country's industrial locations - for example in Braşov, Râmnicu Vâlcea or Slatina.

In which areas do you recommend filling a position with an expatriate?

The question of whether a Romanian or an expatriate is more suitable for filling a particular position needs to be considered in an individual basis. Everything depends on the specific company and the respective role.

In many situations, both local candidates and expats are considered. In such cases, we search in both directions, so that the final decision can be made between concrete candidates.

Expats are particularly interesting when international know-how is to be transferred to the Romanian subsidiary. This can be technical expertise, but also international business standards and processes.

A disadvantage associated with expats is their generally higher cost. Moreover, local candidates are generally more familiar with the customs of their native market and the special requirements of local clients.

In general, the trend in Romania is moving away from expat assignments towards recruiting local managers. Many international companies entrust their Romanian subsidiaries entirely to local management boards.

Romania's image has improved significantly over time. Ten years ago, it was very difficult to motivate Western Europeans to assignments in Romania. In the meantime, the attractiveness of Romania as a location has increased. People are today more aware of advantages such as the pleasant climate, the numerous leisure opportunities and greatly improved infrastructure. Consequently, many expats are prepared for long-term tenures in Romania.

CT Executive Search and Elite Searchers cooperate in Romania on executive search assignments for international clients.

What are the special features of the Romanian executive market?

Romania hosts a large reservoir of well-trained managers, some with MBAs and other internationally recognized degrees.

The international companies operating in the country have invested heavily in the training of their employees over the years. Romanian managers who have been educated in foreign companies have a more „democratic“ style of management than has been traditionally practiced in Romania. The “old style” is now a domain of purely local, often owner-managed companies.

Micromanagement, autocratic structures and a lack of empowerment are considered negative factors, especially among younger Romanians, and ensure that many prefer to work in a foreign company.

However, the Romanian economy has developed, too. Some traditional companies have tried to reorganize themselves by recruiting internationally experienced managers and making a change towards modern systems and processes.

Generally, qualified managers are available in Romania. The international success of Romanian executives also testifies to their quality – quite a few Romanians have made the leap into company headquarters and continue their careers within these global organizations.

LEGAL FRAMEWORK IN ROMANIA

As the second largest country in Eastern Europe, Romania with its approximately 23 million inhabitants is an interesting place for foreign investors. As a result of the corona crisis, it should become even more attractive as a nearshoring location.

When entering the Romanian market, foreign companies should first conduct **extensive research** into the geographic and economic environment in which the Romanian subsidiary is supposed to operate. Certain aspects such as infrastructure and geographical location, nearby university cities (for research, development and IT activities) or available labour in the area (for production activities) can be decisive. Unemployment and rents are also important criteria. There have been regions in Romania with very low unemployment. However, given the COVID-19 pandemic, it may become easier to find personnel here.

Romanian corporate law provides for several legal forms in connection with the establishment of a company. Most investors set up limited liability companies in Romania (rum: SRL).

OVERVIEW



Cristiana Stalfort

is a Romanian lawyer and Managing Partner of STALFORT. Legal.Tax.Audit.

A relatively high share capital (the equivalent in lei of approx. 20,000 euros) is required for the joint-stock company (rum: SA), while the minimum share capital of the limited liability company is 200 lei (approx. 45 euros). If a SA is not required for legal reasons (e.g. due to the company's activities - for example, banks or insurance companies), the reasons for its foundation lay usually in group-internal guidelines, which are related to the more transparent and easier to supervise structure. On the other hand, SAs require several organs which may lead to more difficult handling.

In contrast to the SA, the SRL can have only one shareholder; at least two shareholders are required for a SA. When establishing a one-man limited liability company, it must be taken into account that a limited liability company that is held by a sole shareholder may not itself be the sole shareholder of another limited liability company (ban on a one-man company chain). Furthermore, a (natural or legal) person may only be the sole shareholder of one SRL. Based on a draft law, these regulations could still lapse in 2020.

In principle, both Romanian and foreign nationals can be managing directors of a Romanian company.

Some economic and fiscal measures have been taken in Romania in the context of the pandemic caused by the **COVID-19 virus**. Among other things tax breaks were introduced, rental payments deferred and loan simplifications created. The state also supported workers affected by the lockdown. The introduction of short-time working regulations is also under discussion. Until November 2020, company and formalities in corporate law were relaxed and simplifications were created for meetings of corporate bodies.

Romania has some notable tax advantages, despite a bureaucratic approach. The relatively low tax rates (16% profit tax, 10% income tax) are notable, as are certain benefits in specific areas.

So-called micro-enterprises apply a special income tax instead of the regular profit tax. It is measured based on the income and earnings achieved and is 3% or 1%, depending on whether the company has employees. Under certain conditions, micro-companies can opt to apply the regular 16% corporate tax.

A profit tax exemption applies to profits that are invested in the purchase of certain assets for the purpose of doing business. Taxpayers who work exclusively in the field of innovation, research and development are also exempt from corporate income tax under certain conditions.

Employees from the areas of IT, innovation, research, development, construction, certain seasonal workers, disabled people, etc. are exempt from income tax under legally regulated conditions.

STALFORT. Legal.Tax.Audit.

was founded in 1997 to advise foreign clients on the acquisition, development and management of investments in Romania. In the meantime, it has become one of the leading Romanian commercial law firms with more than 30 lawyers, tax advisors and auditors.

Various benefits can also be taken advantage of in connection with other activities, e.g. hiring graduates or unemployed individuals, carrying out activities in industrial parks, employee participation in stock option plans, etc.

Romanian labour law differs in parts strongly from German law, although the EU requirements were implemented. A high level of formalism is particularly striking. However, a flexibilization process is currently taking place.

Due to the Romanian Labour Code (rum: *Codul Muncii*), employees may not waive any statutory rights. Many regulations familiar to foreign employers (time accounts, bans on side jobs, expiry dates, etc.) must therefore be checked for their legality; mostly they cannot be applied in Romania without adaptation.

In Romania, employment contracts must conform to a mandatory form. Additions are possible (and usually necessary) as long as they do not restrict statutory employee rights.

In Romania, employees cannot be dismissed without specified reasons. There are statutory reasons for termination for each of which a specific termination procedure is proposed.

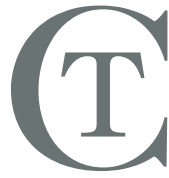
Unlawful dismissals are subject to legal challenge. There are fewer dismissal protection lawsuits than in Germany, but the willingness to agree to a settlement after filing a lawsuit is very low.

Collective labour law is mainly applicable at company or company level where unions are founded or employee representatives are elected.

In companies with a certain amount of employees, there is an obligation to „collective negotiating“, which shall be aimed at the conclusion of a company collective agreement. There is no obligation to conclude such an agreement.

Every employer must also draw up work regulations (rum: *Regulament Intern*). The legally compliant handling of Romanian labour law requires both theoretical and hands-on experience.

Romania is of great interest to investors because of its proximity to Western Europe, the European mentality, its well-qualified specialists as well as the membership in the European Union. The country offers a stable and secure environment for the activities of foreign investors compared to other neighbouring countries.



EXECUTIVE SEARCH



EXECUTIVE SEARCH EXPERTS IN EASTERN EUROPE AND THE EMERGING MARKETS

CT Executive Search focuses on placing key positions in Eastern Europe and the Emerging Markets – in Russia / CIS, Africa, the Middle East and Asia. We are experts in cross-border search processes and identifying high-performing candidates, adding value to international companies. Leveraging a broad network of analysts and consultants across Eastern Europe and the emerging markets, CT Executive Search has established itself as a reliable partner to well-reputed multinational companies.

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