



THE DEVELOPMENT OF ROMANIAN ENTREPRENEURSHIP- A POSSIBLE SOLUTION TO ATTENUATE THE CRISIS EFFECTS AND TO RESUME ECONOMIC GROWTH

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Abstract *Entrepreneurship has started to receive attention together with the problems brought by the global financial and economic crisis and tends to be associated with economic development and well-being of society. The objective of this paper is to conduct an analysis of the Romanian entrepreneurial ecosystem and the factors that have the power to stimulate it, thus allowing the design of effective policies for the development of Romanian entrepreneurship. Development of the present paper has been carried out through the analysis of the Romanian entrepreneurial ecosystem in using data supplied by the Global Entrepreneurship Monitor 2013 and European Commission. Contrary to general opinion, entrepreneurship is appreciated in Romanian society and Romania is among the first European countries when it comes to the way entrepreneurship is regarded in society.*

Key words:
Entrepreneur,
entrepreneurship,
economic growth,
economic development,
analyses

JEL Codes:
M10, M13, M19

1. Introduction

Entrepreneurship has started to receive attention together with the problems brought by the global financial and economic crisis, and entrepreneurs have become "heroes" capable to provide a boost to the fragile economies.

Entrepreneurship has become a term that is increasingly widespread around the world. According to a broad spectrum of key players in society, including policymakers, academics, entrepreneurs themselves as well as for the population at large, entrepreneurship tends to be associated with economic development and well-being of society (GEM, 2013).

New companies, especially SMEs, represent the most important source of new employment: they create more than 4 million new jobs every year in Europe (European Commission, 2013).

Yet the engine for this recovery has been stuttering: since 2004, the share of people preferring self-employment to being an employee has dropped in 23 out of the 27 EU Member States (European Commission, 2013).

While three years ago for 45% of Europeans self-employment was their first choice, now this percentage is down to 37% (European Commission, 2013).

By contrast in the USA and China this proportion is much higher: 51% and 56% respectively. Moreover, when new enterprises are founded, they grow more slowly in the EU than in the USA or emerging countries,

and fewer of them join the ranks of the world's largest firms (European Commission, 2013).

Furthermore, the knowledge-based services and activities have become Europe's competitive edge, thus leading to the emergence of a new wave of innovative SMEs that have survived the crisis and prospered while corporations were starting to lay off employees and restrict their activities. Small and innovative companies represent 99 % of all companies active in Europe and offers 66 % of available jobs. In the context of alarming rates of unemployment that persists in many countries of the world, entrepreneurship has become a viable solution to economic problems.

Entrepreneurship cannot be defined accurately and the multidimensional approaches of concept and make it very difficult to generalize the definitions.

The objective of this paper is to conduct an analysis of the Romanian entrepreneurial ecosystem and the factors that have the power to stimulate it, thus allowing the design of effective policies for the development of Romanian entrepreneurship.

2. Literature review

The term entrepreneurship comes from the French word that is written as entrepreneur and according to DEX the entrepreneur is the person who leads an enterprise.

If we look at the etymology of entrepreneur can capture the following ideas:

Richard Cantillon is among the first economists to use the term entrepreneur and entrepreneurship as a field that generate profit, but it can always get newcomers seeking potential profit that can be generated. From Cantillon until today entrepreneurship is associated with risk-taking.

Uncertainty can be described as the sum of all the potential dangers around us perceived or not (Giarini, Stahel, 1996). In other words, uncertainty is the expression of the incomplete character of the information regarding the conjugated influence factors and consequences of their actions in space and time (Popescu, 2003).

What is the accurate definition of the uncertainty concept? Despite the fact that the uncertainty has received considerable attention from social science researchers, the conceptualization and operationalization degree differs on each segment of the social sciences. Status of the concept of uncertainty in the social sciences is rather ambiguous. The ambiguity of the concept has several sources.

The first source is that every sector of the social sciences has developed a definition and a conceptual apparatus for characterizing uncertainty specific to every field of study. Therefore there is no uniform definition of the concept of uncertainty. We can rather talk about a number of uncertainties defined specifically in the various sciences: economy, psychology, sociology, organization theory, public administration.

A second source of ambiguity is the position given to the uncertainty in the various theories or empirical studies from the social sciences. Thus, there are approaches that place uncertainty as an independent variable, approaches that places uncertainty as the dependent variable (explain) or approach that places uncertainty simultaneously as independent and dependent variables. Uncertainty as the dependent variable has received relatively little attention in the social sciences case. In the case of economics sciences, uncertainty is considered an independent variable because of economic agents behavior modeling the uncertainty is considered a given variable, which influence objectively the producers and consumers decisions regarding the capital investment level, savings placing, creating the market specific institutions etc.(Coase, 1997).

Adam Smith explained one of the entrepreneurship resorts by the well-known explanation for the baker which produces bread, not willingly, but for their own interest to make profits. In this respect, the entrepreneur seeks the obtaining of profit.

JB Say is considered the second economist after Richard Cantillon which greatly contributed to the school of entrepreneurial thinking in his work "Treatise on Political Economy." Say positions the entrepreneur

in the center of all economic activities, both in production and distribution of goods and services for consumption, the overlapping functions of the entrepreneur with the functions of the manager.

The risk is brought into focus in the work of Say: Any entrepreneurial activity has in itself probability of failure. The entrepreneur may lose his fortune and reputation to some extent (Say, 1803).

Schumpeter is part of economists who have contributed significantly to theories of entrepreneurship. Schumpeter, unlike Say, does not consider the entrepreneur as being the manager of the company. Also, he is focusing on innovation and resources combining, writing that the entrepreneur must be strong enough to swim against the society trend in which he lives.

What distinguishes Schumpeter by its ancestors is the idea that it is not necessary for the entrepreneur to possess also financial capital, focusing on innovation. He makes a distinction between the entrepreneur and management and between entrepreneurship and management functions.

Regarding the entrepreneur, we can mention some definitions:

Definition 1: The entrepreneur is the person who identifies a business opportunity, assumes the responsibility for its initiation and obtains resources to start the business.

Definition 2: The entrepreneur is the person who assumes the risks of running a business.

Definition 3: The entrepreneur is the one who manages the resources necessary for the operation of a business based on innovation.

Definition 4: The entrepreneur is a authorized person or a legal entity, which individually or in combination with other authorized persons or legal entities, organize a company for the conduct of trade facts in order to obtain profit (Law 133/ 1999)

The entrepreneur is a person who initiates and develops a set of activities involving risk and innovation in order to achieve personal and material satisfaction (Cordos et al, 2008).

3. Research methodology

Development of the present paper has been carried out through the analysis of the Romanian entrepreneurial ecosystem in using data supplied by the Global Entrepreneurship Monitor 2013 and European Commission. This analysis will provide an overview of the current situation and the way in which it can intervene.

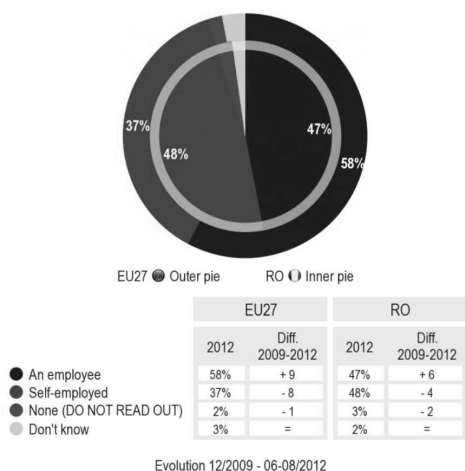
4. The analyses of Romanian entrepreneurial ecosystem

General opinion regarding the entrepreneurial ecosystem from the former Communist countries is that they are behind other European countries, and the differences between East and West will say the word when it comes to the performance of the newly established companies. However, Romania has a strong entrepreneurial ecosystem despite of the low level of economic development.

Entrepreneurship is valued in society, and 48% of the population prefers to be on their own according to the Global Entrepreneurship Monitor, in comparison with the European average of 37% (GEM, 2013).

There has been a noticeable change in Romania on this aspect since 2009, with more people now saying that they would rather work as an employee (+6 points), and fewer people favoring self-employment (-4 points). This is in keeping the EU-level trend, with more Europeans now preferring to work as employees (+9 points) and fewer preferring to be self-employed (-8 points).

Figure 1. Entrepreneur vs. employee



Source: European Commission, 2013, Flash Eurobarometer 354

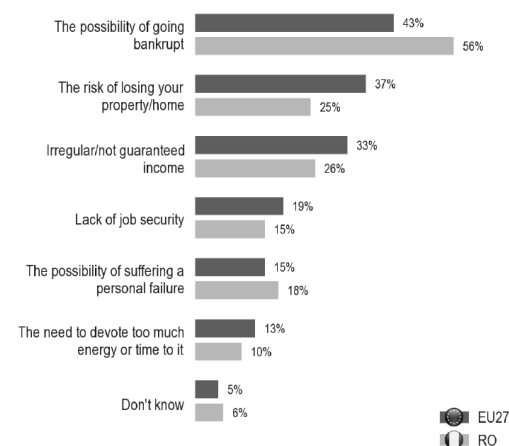
Preference for entrepreneurship can be explained by the low level of wages in Romania, context in which people have larger potential revenues starting its own business. However, half of respondents' states that they do not have the financial resources to start a business, more than double than European Union, where 21% of respondents say that lack of money is the reason they do not develop their own businesses.

Regarding the reasons for wanting to be self-employed A majority of Romanians (54%) are attracted to the personal independence or self-fulfillment that comes with self-employment. However, this is somewhat lower than the 62% of people who say this at EU level.

Over a quarter of respondents in Romania (26%) say they would like the freedom to choose the place and time of their work; 30% of people give this answer across the EU. However, the same number people in Romania (26%) say they are attracted by better income prospects – a result which is somewhat higher than the EU average (16%).

Failure is perceived negatively in the Romanian society, and the possibility to go bankrupt is the main fear for Romanians, 56% of those who start its own business saying that they are concern about this. The situation is significantly different from that recorded at the European level, where only 43% of the population considers the possibility to go bankrupt as a major risk. The image below shows, by way of comparison, the risks associated with the possibility of starting a business for Romanians and Europeans

Figure 2. Fears when setting up a business



Source: European Commission, 2013, Flash Eurobarometer 354

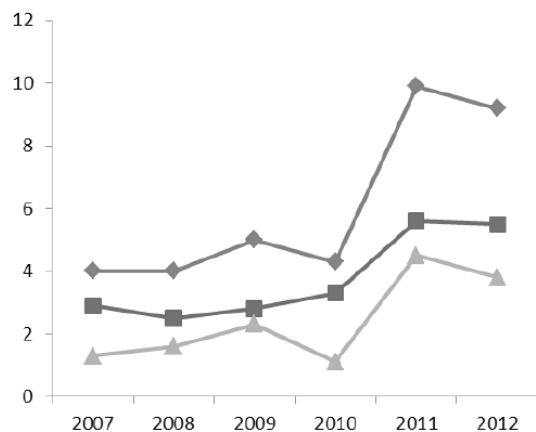
Attitudes and perceptions related to entrepreneurship are analyzed by the Global Entrepreneurship Monitor using 7 indicators: the perception of business opportunities; the perception of their competence; fear of failure; entrepreneurial intentions; entrepreneurship as a career alternative. The status granted to successful entrepreneurs; and media attention given to entrepreneurship. The table below presents the situation of these indicators for the 27 European countries, along with the arithmetic mean for each of them.

Almost half of the Romanians (48%) do not consider self-employment to be feasible on the grounds that they do not have enough capital or financial resources – far more than the 21% of people who give this answer at EU level. In contrast, only 7% of people in Romania note that the current economic climate is not good for a start-up, which is relatively low by EU standards (12% of Europeans mention this).

In Romania 28.9% of the population believes that there are business opportunities in the area, compared to the European average of 28.4%, but only 45.7% of the population considers that it has the capabilities necessary to start a business, compared with the European average of 42.3%. This situation is supported by the fact that studies have shown that there is a direct relationship between the perception of their own abilities and skills on the one hand and the level of economic development of a country on the other side. Romanians are adverse to the risk, and the fear of failure is higher than the European average (45.9% compared to 39.8% at EU level). Romania is the first country in Europe in terms of entrepreneurial intentions: 23.7% of Romanians saying they will start its own business, double than the European average. This can be explained by a lack of understanding of entrepreneurship and alleged efforts by the latter. Romania is among the first European countries when it comes to the way entrepreneurship is regarded in society. Positive attitudes towards entrepreneurship affect the probability of becoming an entrepreneur and the level of support that the new companies they will get, whether it's about the access to funding, partners or mentors. 73.6% of Romanians consider entrepreneurship as a alternative career in comparison with only 56% of Europeans, and 72% of the Romanian population thinks that entrepreneurs have a privileged status in society. In addition 61,3 % of the population of Romania believes that entrepreneurship is in the media attention compared to the European average of 49%. Regarding the entrepreneurial activity, the main indicator used by the Global Entrepreneurship Monitor (GEM) to measure entrepreneurial activity of a country is the total entrepreneurial activity (TEA), an indicator representing the active population aged between 18 and 64 years of age who are in the process of starting a business (in forming entrepreneurial rate -nascent entrepreneurship rate) or already manage its own business (rate of newly established companies-new business ownership rates). Total early-stage As a percentage of the adult population, these rates tend to be highest for the factor-driven economies, and decline with increasing levels of GDP. The main reason for this stylized fact is that higher levels of GDP yield more and better job opportunities. At the very highest GDP levels, however, some economies deviate from this trend with higher TEA levels. The TEA for Romania recorded a value of 9%, one percentage point higher than the European average, which ranks 6th in Europe in terms of total entrepreneurial activity after Austria, Estonia, Latvia, the Netherlands and Slovakia. Business stable rate (established business ownership rates) measures the percentage of companies that pass

the threshold of start-up and reflects the entrepreneurial sustainability in a country, and businesses that reach this level are those that innovate and create new jobs. In general, TEA records high values in developing countries, but the newly established businesses do not resist in time. This is the situation in Romania which occupies the penultimate place in the EU in terms of sustainability of the companies: with a stable business rate of 4%, over 50% of the entrepreneurial initiatives are closed or are suspended in 42 months. In Romania, 25% of the entrepreneurial activity is driven by need, and 38% is realized to meet the opportunities encountered on the market. The situation is consistent with the status of a developing country of Romania: thus Romania has more entrepreneurs motivated by need compared to the European average and a lower percentage of people motivated by market opportunities (38% in comparison with the European average of 44%). The total entrepreneurial activity has been defined above as the percentage of the population that is in the process of starting a business or has his own start-up, and is composed of the forming entrepreneurship rate and rate of newly established companies which do not operate more than 42 months. The evolution of these indicators for Romania in the period 2007-2012 is shown in the image below.

Figure 3. The evolution of entrepreneurial activity in Romania 2007-2012

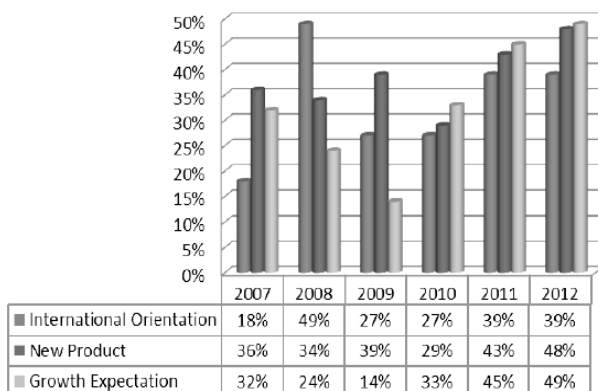


Source: Global Entrepreneurship Monitor 2013

Entrepreneurs' aspirations and perspectives they have over the future of their business are important because it shows the degree of confidence in the ecosystem they activate. International orientation shows the percentage of the companies from TEA that have at least 25% of clients abroad. Moreover, the rate of new product reflects how innovative is a start-up and shows the business percentage of TEA who claim that the product or service that they offer is new for at least of

some clients. In the end, the expectations regarding future growth shows the perspectives for subsequent development of a company and they are calculated as a percentage of the TEA that expect to employ at least 5 people in the next five years. The image below shows the evolution in time of these indicators for Romania and shows the increasing confidence in the Romanian ecosystem, along with international orientation increasing and the innovation degree the new companies it bring platform.

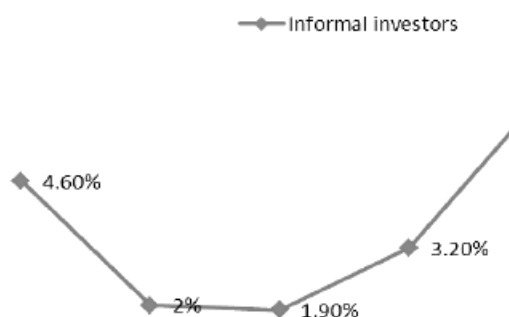
Figure 4. The perception regarding the entrepreneurial activity in Romania



Source: Global Entrepreneurship Monitor 2013

Significant improvements have been made in terms of informal investor rate, measured as a percentage of the working population which has provided funding for a start-up founded by a third person during the last three years. In the absence of a robust ecosystem for the financing of new businesses, this rate is important because it shows people's willingness to invest in start-ups. The figure below presents the evolution of the informal investors' rate of in Romania in the period 2007-2012.

Figure 5. Informal investor rate evolution 2007-2012



Source: Global Entrepreneurship Monitor 2013

5. Conclusions

Contrary to general opinion, entrepreneurship is appreciated in Romanian society, with 48% of the population expressing a desire to work on their own in comparison with the European average of 37%.

Romanians are among the first European countries when it comes to the way entrepreneurship is regarded in society. The positive attitude regarding the entrepreneurship influence the probability of becoming an entrepreneur and the level of support that the new companies will receive, whether it's about the access to funding, partners or mentors. 71% of Romanians consider entrepreneurship as alternative to excellent career compared to only 58% of Europeans, and 74% of the Romanian population thinks that entrepreneurs have a privileged status in society.

However problems arise when we look at sustainability of the Romanian entrepreneurship environment. Although occupies 6th in Europe in terms of total entrepreneurial activity, with 9 percent of the active population being in the stage of start-up or pre-start-up, over 50% of the newly established initiatives do not survive in the critical period of 42 months. In this context, the accent should be put on developing entrepreneurial education and improving of survival degree of existing companies

However, a positive evolution is recorded in terms of the confidence in the Romanian ecosystem: the degree of internationalization and innovativeness of developed products has risen, along with increased expectations of future entrepreneurs.

What remains to be done to develop the Romanian entrepreneurial ecosystem? The necessary measures can be undertaken both at public and private level.

Thus, at the governmental level, the State should to give up at the setting up of new companies programmes-the focus must be changed on the sustainability of existing ones by improving the quality of entrepreneurial education programmes. In this regard, it is important to be a link between school and business environment, and curricula should be adapted to the market conditions. In addition, the educational system needs to focus on creating responsible and independent leaders, which capitalize the entrepreneurship and understand what it means. Also, in the service of the State falls the administrative and tax simplification, along with the fight against corruption. On the other hand, the private sector can contribute significantly to the development of entrepreneurship by implementing quality programs: training sessions, events and competitions addressed to newly entrepreneurs, mentoring and support programs for start-ups or information sessions about existing funding opportunities. Facilitating access to acceleration programs, incubators and co-working spaces is another

very important point, besides the continuous promotion of the successful models and of the correct reasons for being an entrepreneur. Together, the public and private sectors have the power to contribute significantly to the development of the Romanian entrepreneurial ecosystem.

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