

THE ROLE OF ENTREPRENEURSHIP IN ECONOMIC GROWTH. COMPARATIVE ASPECTS ROMANIA VERSUS EUROPEAN UNION

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Abstract

There is a general appreciation regarding the major role that entrepreneurship along with innovation plays in economic competitiveness and job creation on a global scale. Stimulation of the SME sector should be made, in our opinion, by providing a competitive, stable and predictable business environment. In this context, public policies aimed at developing entrepreneurship in Romania, should have in the foreground entrepreneurship education at all levels, simplified and predictable regulatory framework and a competitiveness-oriented access to finance. In this paper we develop a comparative analysis of entrepreneurship in Romania and the EU, we highlight the main difficulties encountered by entrepreneurs and will propose solutions for its development into a friendly economic environment.

Keywords: SMEs, competitiveness, fiscal framework, entrepreneurial education

JEL Classification: H26, H27, H32

Introduction

Entrepreneurship is a source of innovation and change, and thus stimulates productivity growth and economic competitiveness. Entrepreneurship is closely related to knowledge and flexibility, two factors that have gained new significance as a source of competitiveness in a world economy becoming more globalized. Along with technological changes and intensified global competition brought by globalization and economic liberalization, the assumption that encouraging entrepreneurship represents to encourage the competitiveness of a country, it seems more valid today than ever.

Aspects regarding entrepreneurship in the actual economic context

Supporting entrepreneurship has become a priority as a solution for exiting the crisis and cessation the worrying rate of unemployment. In recent years, governments have been constantly allocating resources for the recovery of enterprises in various forms of aid: loan guarantees, tax grants, credits for research and development aimed at forcing innovation or encouraging startups.

Also, more frequent are the programs for stimulating environment investments, with impact on energetic efficiency and reducing carbon emissions. In many countries, public spendings for renewed economic growth are accompanied by measures for long-term sustainable development and "green" growth. For example, in 2009, South Korea has invested 79% of the economic stimulus package in "green" activities, representing 7% of GDP, while China and Australia have targeted 34% and 21% of the recovery package to "green" investments, respectively 5.2% and 0.9% of GDP. During this period the "green entrepreneurship" began to be seen more than a fashionable trend, it has become a key element in economic policies orientation.

Europe lags behind other regions of the world, regarding the place of entrepreneurship in society. Thus, from the career option perspective, average percentage of citizens who prefer to be self-employed is 71% in China and 55% in the US, while in Europe only 45% of people would choose as an alternative the entrepreneur status, the rest preferring the employee status. With regard to society's perception about the role of entrepreneurs, 85% of Americans, 87% of Chinese citizens and 88% of Europeans appreciate entrepreneurs for their role in job creation. The impact of entrepreneurial education is considered important by 51% of US citizens, 53% of Chinese and 25% of Europeans. This gap is not necessarily caused by the idea of entrepreneurship rejection by

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European citizens, but rather is the result of structural, administrative and cultural factors that inhibit entrepreneurial spirit.

However, Europe needs more entrepreneurs, more viable firms, and more jobs. It is well known that new companies are the main source for new jobs. In Europe, there are yearly created 4.1 million jobs by start-ups only. It is estimated that the average employment rate would be negative in the absence of jobs created by startups. But there is the risk that in the present period, characterized by economic environment turbulence, many firms can not survive unless the growth and business development are institutionally supported.

Although operating in a single market becoming more and more diversified, governed by common standards, the situation of enterprises from various EU countries is different and marked by discrepancies. Businesses from the new Member States became part of pan-European supply chains, which helped them to restructure and increase their exports. At the same time, Western European companies have switch production to emerging economies, investing or relocating their factories in these countries. Thus, it can be distinguished a distribution of opportunities in the regions of Europe, between states with a high entrepreneurial profile, that adapt easily and exploit market integration, on the one hand, and the countries of Central and Eastern Europe, benefiting from foreign investment, but depending on investors savings.

Countries with more effective regulatory systems increased productivity, became more competitive at international level, intensifying exports and increasing jobs. In any of these, there is always a positive correlation between the regulatory framework for business environment, enterprise development and attracting investors. Simplifying legislation and reducing administrative burdens lead to increase in number and size for firms, to strengthen certain economic sectors and successful functioning in the single market, but can equally support exports outside the EU and attract foreign direct investment.

Countries where governments have supported entrepreneurship by improving business infrastructure and facilitating access to credit for financing investments had the best performing economies. Overall, European regulations with direct or indirect impact on business are more burdensome than those applied in the US or Japan, but here there are also differences between Member States. Thus, northern and western European countries have a better regulatory framework compared to those in southern and eastern Europe. Sweden, Finland and Norway are better placed than the rest of Europe, in terms of the balance between quantity and quality of regulations for business and are in-line with the most advanced countries in the world due to efficient administrative systems.

In this context, characterized by certain limitations, but also by a number of opportunities, entrepreneurs and businesses are able to meet many expectations. Expectations from the society are that companies to create jobs and protect the environment, stakeholders seek to make profits, while governments are concerned that they pay taxes, dues and social contributions or to generate export.

EU enlargement and the creation of internal market based on free circulation principle of goods, services, capital and labor had strengthened the favorable position of European enterprises within global competitiveness. Europe exports goods and services amounted at more than 40% of GDP, much higher than the average of Organization for Economic Cooperation and Development (OECD).

Support measures for entrepreneurship in EU. Measurement indicators

As globalization increasingly influences the world economy, the dynamism of entrepreneurship is seen as a factor that contributes to strengthening the knowledge economy, to solve the social and environmental issues. Entrepreneurial policies are increasingly closely correlated with innovation, oriented at creating new products and services, by harnessing both meanings of the knowledge economy. Supplementing and intensifying measures to promote entrepreneurship at all levels (european, national, regional) has been an assumed objective, starting with 2008, in EU strategic documents.

Thus, there have been adopted:

- *Europe 2020 Strategy*. In a rapidly changing world, the EU wants to become an intelligent, sustainable and inclusive growth. Intelligent growth aims at an economy based on knowledge and innovation. Sustainable development requires competitiveness and resource efficiency. Inclusive growth relates to a higher rate of employment in the economy, generating economic, social and territorial cohesion in the EU. These three priorities are mutually supportive and are able to help the EU and Member States to achieve a higher level of employment, productivity and territorial cohesion.

- *Small Business Act for Europe, 2008*. Promoting growth and competitiveness of SMEs, while modernizing the public administration in order to improve the business environment, are central priorities of the European Commission communications "Small Business Act for Europe", in 2008 and "Review of the Small Business Act for Europe", in 2011. The two public policy documents cover the main issues affecting European SMEs throughout their life cycle.

- *Small Business Act reviewed, 2011*. SBA review in early 2011 reiterated the opinion that Member States should intensify their efforts to promote entrepreneurship and SMEs, to support entrepreneurial spirit in the difficult economic climate. The Commission is determined to continue giving priority to SMEs.

- *Action plan for development of entrepreneurship in the EU in 2020* aims to boosting entrepreneurship in Europe in the 2020 perspective, by unlocking the potential for growth and jobs. Drafting the action plan relies on consultation of policy makers, SMEs, organizations and citizens of the European Union.

Entrepreneurship Indicators Programme (EIP) developed by OECD and Eurostat, which produces and disseminates a new set of indicators focusing on the comparability of data and frequency of the reporting period. The program aimed to develop complex measurements of entrepreneurship, based on a simplified new conceptual framework that distinguishes between the manifestation of entrepreneurship, factors influencing it and impact of entrepreneurship in the economy and society.

The figure below illustrates the structure of indicators of EIP:

| Determinant factors | Entrepreneurial performance indicators | Impact |
|--------------------------------------|--|-------------------|
| Regulation framework | Firms | Job creation |
| Market conditions | Jobs | Economic growth |
| Finance access | Wealth | Poverty reduction |
| Creation and knowledge dissemination | | |
| Entrepreneurial abilities | | |
| Culture | | |

Fig.1. The structure of indicators of EIP

Source: Post-Privatisation Foundation, 2012,

"Promoting entrepreneurship as a key factor for economic development"

We observe that within determining factors, the regulatory framework is of particular importance, meaning in fact administrative barriers to starting a business, administrative barriers to increasing, regulations on bankruptcy, regulations on safety, health and environment, regulations on products, taxation and social taxes, business taxation and capital.

EIP system indicators have not experienced the same level of development in all countries. Some of these were included in ordinary data collections, while others were included in the statistics by a small number by states. Providing statistical data sources are different, usually including national statistical offices, and other institutions or methods such as surveys / polls.

Also, another way of measuring entrepreneurship can be achieved by compared evaluation between countries or regions, through measures that require the availability of data in a standard, uniform format, designed to ensure their comparability.

In other cases, such as the Global Entrepreneurship Monitor, entrepreneurship measurement is based on attitudes and activities mainly manifested in the preliminary or initial phases of the business.

The theoretical and empirical research have identified as main factors for the integration and success of entrepreneurship, the following: - risk-taking in order to obtain profit - control of the situation - the need for autonomy and independence - innovative spirit and creativity - self-confidence and self-determination - failure tolerance - tolerance of ambiguity - the need for achievement - former occupation - the ability to learn.

The assessment instrument used by the European Commission to measure entrepreneurship is the entrepreneurship Eurobarometer, which is based on reports realized in member countries and captures the attitudes and perceptions on a set of indicators features.

Measurements focus on relevant issues to characterize the determinants and trends for the development of entrepreneurship in society, namely: self-employed status vs. employee status, preferred status, reasons for engaging in activities on their own, perceptions of entrepreneurship, the feasibility of becoming self-employed, the desire to become self-employed, concerns about starting a business, experience in starting a business, perceptions the entrepreneurs and the role of education, perceptions of entrepreneurs, the role of education for entrepreneurship.

Thus:

- 58% of Europeans would prefer to work as employees, while only 37% would be willing to work on their own.
- The attraction to work on their own ranges from 58% in Lithuania to 22% in Sweden.
- In 18 of the 27 EU Member States persons who prefer the employee status in a company is the majority, reaching 74% in Sweden and 73% in Denmark.
- It is observed the tendency of misguided perception of EU citizens towards self-employment, which fell from 37% in 2012 compared to 2009, when 45% were willing to operate on their own.
- Almost half of Romanians (48%) say they would choose variants of possible careers, self-employment being desirable. This percentage exceeds the EU 37% average.
- Half of respondents in Romania indicate as obstacles to become self-employed the lack of financial resources, which means a lot compared to the European average of only 12%.
- 56% of Romanians declare that the main risks for Romanians business are the risk to fail, representing more than the EU average which is 43%.
- 26% of respondents in Romania replied that have started or intend to start a business, the percentage being higher than the EU average (23%).
- As in the EU, in Romania 23% of people say they have taken a course in entrepreneurship, while a 76% say they have never attended such a course.
- Regarding perceptions about entrepreneurship and entrepreneurs, a large majority of Romanians (85%) think that entrepreneurs create jobs (compared with 87% at EU level) and 85% of Romanian citizens agree that entrepreneurs create new products and services of which we all benefit all, exceeding the average of 79% of EU citizens.

Entrepreneurship in Romania

Economic development depends on the general business activity of any region, according to the type of economies in the countries evaluated. Thus, in factors of production-oriented economies existing in poor countries, the average rates of entrepreneurship are higher in the initial phase, which expresses the need to increase the gross domestic product (GDP), by starting new businesses. In economies-oriented towards efficiency, where the values of GDP per capita are higher, the rates of entrepreneurial activities in the initial phase are lower, while in economies based on innovation these rates are higher because of the opportunities for entrepreneurial development and innovation for economic environment.

A particular case is that of countries in Eastern Europe, including Romania, that have experienced a period of profound system structural change, concurrently with a decrease of population. They generally have fewer entrepreneurs and therefore an insufficient number of new private businesses.

There are enough reasons why many people choose to conduct business on their own instead of the employee status. Most often, entrepreneurship is regarded as an opportunity or as a mean of existence in the absence of an alternative or for fear of becoming unemployed in a future perspective. As opportunities, are declared the desire for independence and greater financial gains than in the case of an employee.

A separate category is that of entrepreneurs motivated by necessity, those who say they have not found another way to earn a living. Opportunity oriented towards improvement refers to those entrepreneurs who value independence and seek to improve permanent standard. This type of motivation is most common in innovation-oriented economies.

Romania is placed in a favorable place (8) in the GME ranking, with a percentage of 47.16% of the options. Analysis of entrepreneurial motivation presented by GEM report shows the share of entrepreneurs in early stage motivated by opportunities is 67.3% and double, namely a doubled value compared to the one recorded in early stage for entrepreneurs motivated by necessity. It can be concluded that more than two-thirds of entrepreneurs in early stage are motivated by opportunities.

Regarding the aspirations of entrepreneurs, they can be classified into three main categories: business internationalization, innovation and business growth expectations.

The main difficulties the Romanian entrepreneurs face with

Of these, the most important are: difficult access to financing, unpredictability of the tax system, cumbersome fiscal for requirements and regulation, taxes level, lack of entrepreneurial and professional education and entrepreneurial culture, the local economy state and gaps, lack of political stability and vision of public policies, corruption.

Therefore, financial constraints presented the most serious problem for new businesses. The impact of the crisis on the demand side difficulties is also significant. As a result of the financial crisis, lack of resources of potential customers has become the most serious problem faced by start-ups and their founders. Furthermore, to this are added barriers of increased competition in the market. Prevalence of difficulties related to the poor information degree on the market of the new entrepreneurs and the lack of marketing skills was lower in 2008 compared to pre-crisis years.

Enterprises demography in Romania

Analysis of a key indicator for entrepreneurship dynamics, as enterprises demography, reveals the manifestation in 2010 of the turmoil in the process of input and output of enterprises in business environment, after a steady positive trend before this time; however it appears the resumption of the upward trend in the number of registrations in the second quarter of 2011.

Demographic trends of enterprises occurred in a natural dynamics for private business environment in Romania, which was relatively new and marked by profound systemic changes in the last two decades. Deprived of experience and the skills required, Romanians entrepreneurs have chosen the activities on their own in an attempt to fruiting the new opportunities and market circumstances or simply from the need to ensure means of subsistence.

On the background of instability and unpredictability of the business environment in that period, demographic fluctuations occurred with different intensities. Basically, after a period of consolidation of regulatory and institutional systems, firms demography has experienced a steady growth between 2005-2008, followed by a decline, occurred in 2009, with the installation of the economic crisis.

Basically, at the end of 2008, the SME sector reached the highest level in terms of demographic development, namely a number of registered firms greater than 508,000. The magnitude and rhythm of changes in 2009 led to a number of variations in terms of demographics, both in terms of registration, and in terms of market exit, marked by temporary suspension of activity and deletions in the Commerce Register.

The entrepreneurial impact in local and national economy

The contribution of entrepreneurship to increasing economic performance and securing the welfare and social cohesion can be easily evidenced by the relationship between the entrepreneurship indicator values and macroeconomic results.

In relation to the global indicator and most detailed indicators, Romania has a precarious situation, being placed on last positions in the annual rankings of comparative assessments drawn up by the Global Entrepreneurship Monitor.

Starting from the number of active firms in Romania, as the main indicator of entrepreneurship, it can be seen the impact on jobs and contribution to value added, according to comparative data with average values registered in the European Union. SMEs are numerically the majority, owning a share of 99.7% of the total number of active enterprises in the economy in Romania, similar to the proportion of EU-27. They make a significant contribution, of 65.9%, in total number of employees and are very close to the average of SMEs in the European Union (66.9%). SMEs in Romania participate in a proportion of 50.2% to the gross value added in the economy, a lower percentage than the European average of 58.4%.

The reality concerning the impact of entrepreneurship in the economy and society, recognized globally through studies and reports from international organizations, is confirmed in Romania by using regional analysis.

Meanwhile, by 24 SMEs per thousand inhabitants, Romania is the second lowest in the European Union, under the European average of 40 SMEs and more even below the average in countries like Hungary (57 SMEs to the thousand inhabitants) and Bulgaria (41). And the trend is not a positive one, the number of newly created companies in 2014 was 101,000, with almost 19% lower than in 2013, representing the lowest number of companies created in the last seven years in Romania.

In terms of local impact, between regions of Romania's development there are great differences in terms of entrepreneurial base which is reflected in indicators of local economic and social development.

In relation to the percentage of enterprises, the eight regions can be classified into three categories, as follows: - Bucharest- Ilfov region, is the most developed, detaches from the rest of the regions and holds 24% of the national total; - North-West, Central, Southeast, Northeast and South Muntenia, with SMEs sharing values between 14% and 11%; - The West and South-West Oltenia, with a share of 9% and 7% of total SMEs.

SMEs density (the number of SMEs per 1,000 inhabitants) is a relevant indicator for the entrepreneurial level, nationally or regionally. The density value of SMEs in Romania is very low, accounting for almost half the European average of 24 SMEs / 1000 inhabitants in Romania compared to 42 SMEs / 1000 inhabitants in the European Union. Basically, Romania is the second lowest in the European Union under the European average of 40 SMEs and even much below the average in countries like Hungary (57 SMEs per thousand inhabitants) and Bulgaria (41). And the trend is not a positive one the number of new companies in 2014 was 101,000, with almost 19% lower than in 2013, representing the lowest number of companies created in the last seven years in Romania.

The role of education in development of entrepreneurship

Entrepreneurial education at all levels - primary, secondary, university or continuous professional training - plays a major role in acquiring key entrepreneurial skills. Entrepreneurship education has a positive impact on the entrepreneurial spirit of the young generation, on the attitude and willingness to private initiative, and ultimately its role in society and the economy. Entrepreneurial skills that can transform ideas into actions include: creativity, innovation, risk taking and project management capability and achieving goals. Furthermore, it helps to understand a given context and to evaluating opportunities, so that determine entrepreneurial initiative and starting a commercial activity.

The objectives of entrepreneurial education are related to improving young people's entrepreneurial skills, fostering creativity and self-confidence; encouraging innovative startups; increasing the role of entrepreneurs in society and the economy.

Although necessary for learning entrepreneurial knowledge is increasing, there are still a number of obstacles in developing entrepreneurship education, especially in terms of financing and human resources. And in Romania there have been taken important steps by introducing elements of entrepreneurial culture in the school curricula ever since the first grades of study, continued at the

secondary school. By reviewing the curricula for all school levels approved by Ministerial Order 5097/2009, entrepreneurial education is explicitly recognized as a cross-curricular objective.

One of the modules successfully applied in vocational high schools is entrepreneurial education, by introducing the concept of "training firms". Oriented practical education and professional experience are essential for encouraging the way of thinking and entrepreneurial skills.

It is imposed a systemic approach by integrating an "ecosystem" of entrepreneurial education in all forms, from the compulsory curriculum of national education system, continuing to improve the supply of university-level training and continuous professional education.

Romania should develop a national strategy for entrepreneurial education drawing inspiration from successful models of other European countries. Such a strategy should provide essential elements for a coordinated and effective development of entrepreneurial education regarding: ministerial collaboration; stakeholder consultation and involvement of national and local; provision of key competences by the national curriculum; monitoring and evaluation systems with targets and indicators for measuring; training teachers and, not least, funding sources provided.

In Romania entrepreneurial education into the national education system is materialized by:

- courses aimed at developing entrepreneurial skills to secondary level
- entrepreneurial education in high school
- training firms in secondary education with services profile
- training teachers in vocational and technical-profile services, for extending the modern method of learning interactive training firm
- entrepreneurship in higher education
- Junior Achievement Romania Program

Entrepreneurial education through continuous professional training includes:

- programmes for entrepreneurship education developed by Post-Privatization Foundation;
- the programmes of the Agency for implementing programs and projects for SMEs;
- the Operational Human Resources Development Program (SOP HRD)

Conclusion

Entrepreneurship research revealed correlations established between innovation and entrepreneurship, even just by the changes taking place in the market due to the implementation of entrepreneurial initiatives. Such changes can take various forms: the marketing of a new product, service or quality level higher, the introduction of a new method or process of production, opening new markets, new sources of supply and new materials and components, achieving a new structure or organizational forms.

Encouraging entrepreneurial initiatives and unlocking the growth potential of European affairs are the current major objectives of the EU agenda, transposed into the Entrepreneurship Action Plan 2020 by three strategic directions: development of education and training in the entrepreneurial field; creating a favorable business environment; dissemination of models and develop entrepreneurial attitudes.

There are five pillars that support the development of entrepreneurship in Romania: entrepreneurial culture, access to finance, regulation and taxation, coordinated support, education and training. In the vision of Romanian entrepreneurs, of the measures that would support on short-term the business development are: reducing the tax burden and providing fiscal facilities, reduce bureaucracy and simplify legislation and the Tax Code, providing guaranteed loans, especially for start-ups, improve collaboration and communication between the public and private environment, ensuring stability of the tax environment and improving the entrepreneurial education and training levels.

Also, in order to improve entrepreneurial education, entrepreneurs indicated:

- business courses and real practice to students in firms from the region the high school is located,
- changing teaching and assessment methods of education,
- funds for the reimbursement of courses attended by entrepreneurs,
- coherent program to revitalize occupational schools,
- financial education courses in schools,
- the involvement of professionals who have created and increased business in organizing and delivering entrepreneurial education,
- forcing the academic environment to have a relationship with the private system (for example 50% of teachers to be external collaborators from the private sector).

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