

## ENTREPRENEURSHIP DEVELOPMENT IN SOUTH EAST REGION OF ROMANIA

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### Abstract

*In the current conditions of high entrepreneurial phenomenon at international level, it is important to make an analysis for obtaining an accurate current stage of development of Romanian entrepreneurship at local and regional level, which is also a prerequisite for development and implementation of strategic measures of entrepreneurship development in Romania. Through statistical analysis and questionnaire survey, this study provides a clear radiography of entrepreneurship development status and evolution of SMEs in the South East region. The study results can be used to propose further measures to support local and regional entrepreneurship and the research methodology can be applied later to other regions and even at national level.*

### Keywords:

*Entrepreneurship development; SMEs development; SMEs analysis; questionnaire survey*

### Introduction

The present study aims to answer the problem of identifying viable solutions to medium and long-term effect on support entrepreneurial initiatives and sustainable development of SMEs. This current issue is important, considering that entrepreneurship at international level has an increasingly significant share in the economy. Research methods used in this study are analyzing statistical data provided by the National Institute of Statistics and Eurostat and questionnaire survey, administered to the level of South East Region of Romania (own data collection). The first part of the study presents an analysis of statistical data at the level of South East regarding: structure and dynamics of SMEs, SMEs situation at one year after start, the density of SMEs; number of employees in SMEs; the gross investments of SMEs and the share of innovative enterprises. Part two of the study presents a questionnaire survey regarding the interest for initiation and development of SMEs in the South East. The questionnaire containing 12 closed questions with one answer option, of which 7 are questions about the investigation and 5 are socio-demographic questions for respondents. The questionnaire was administered to a sample of 300 people in the South East Region. The study ends with a set of conclusions drawn from the analyzes conducted and its results can be used to identify a set of relevant measures to stimulate entrepreneurship in the medium and long term. The study also can be replicated for each development region of Romania.

### 1. Literature review

The recent period is one of the spectacular changes in all areas of socio-economic activity worldwide, the most important of them being registered on technical, informational, educational, cultural and political domains. Among the significant changes lately noticed in Europe and other highly developed countries is the position of entrepreneurship and SMEs in the center of economic and social development, by transforming them into a dynamic

element and a strong creator of added value, jobs and financial resources to central and local budgets (Lloyd-Reason et al, 2005).

In these conditions, for the Romanian economy, the development of small and medium sized enterprises (SMEs) represents an important part of economic policy, which influences the rhythm of the long lasting economic growth (Istocescu, 2005). In recent years, the studies conducted in Romania business environment is still facing a lot of problems, such as: decrease of internal demand, excessive taxation, bureaucracy, high credit costs, difficult access to credits, delays in bill payments from clients and so on. (Nicolescu, 2010). The difficulties of developing a SME are also a mainstream at international level. According to other studies, the major reasons for the failure of businesses seem to be management competence, lack of planning and securing financial resources (Mughan et al, 2004). That's why the entry of new firms is often held to be beneficial for economic efficiency and growth because new entrants stimulate competition and efficiency and may also generate, disseminate and apply innovative ideas (Bruno et al., 2008).

But for SMEs to become a real factor of local economic dynamism, they must also be integrated into a well-structured environment, into coherent territorial network for producing relations, exchanges between them and other operators, such as banks, higher education institutions, training centers, consultancy firms, local governments (Istocescu, 2005). According to these premises, the conduction of an analysis study of the entrepreneurship stage and the interest for entrepreneurship at regional or national level is needed in order to elaborate and implement a set of strategic measures to sustainable develop entrepreneurship in Romania.

## 2. Analysis of SMEs indicators in South East region

This section presents an analysis conducted for the South East region of some groups of indicators related to SME activity. The first part of the analysis presents the structure and dynamics of SMEs in the region.

### 2.1 SMEs structure and dynamics

With 57 751 SMEs active in 2014 the South East region owns the 4th place nationally after Bucharest – Ilfov, North-West and Centre. Between 2012 – 2014 the number of active SMEs increased at regional and national level. The dynamics of micro and small enterprises was positive, but the increase was less than the national level, where both categories of enterprises increased by 70% in the period under review. In 2014 the number of active SMEs increased by 35 219 units compared to 2012 and by 22 290 over the previous year, due to relaunch of the business sector and to e grants for the initiation and development of SMEs.

**Table 1 Number of SME at regional and national level**

	2012	2013	2014
National level	470547	483476	505766
South East	55022	56162	57751
Braila	5962	6086	6189
Buzau	8486	8630	8918
Constanta	19850	20240	20775
Galati	10656	10951	11264
Tulcea	4343	4373	4512
Vrancea	5725	5882	6093

Source: National Institute of Statistics, 2016

It was also observed that among the counties constituting the South-East region the largest number of SMEs in the period 2012 – 2014 was recorded in Constanta county, followed by Galati while in the opposite were Tulcea and Vrancea.

From the point of view of active SMEs distribution by size class in 2014 the highest share was the micro-enterprises (89%), which have an average life span shorter than the other classes of sizes. Small businesses accounted for 9.39% of the total active SMEs, while medium-sized enterprises accounted for 1.57% of the total.

## 2.2 The state of SME over one year from start

In Table 2 gives an overview of SMEs after one year of existence, classified in active, inactive and closed, in the period 2012-2014.

**Table 2 The state of SME over one year from start – %**

State	Region	2012	2013	2014
Active	National level	75.9	74.1	81.1
	North East	72	63.8	81.8
	South	71.7	75.5	78.8
	South West	68.1	70.2	74.1
	North West	80.6	74.3	79.7
	West	68.4	63.8	72.1
	South East	68.3	70.1	77.7
	Center	79.1	77.1	85
	Bucharest – Ilfov	84.4	85	87.2
Inactive	National level	18.5	15.8	13
	North East	20.1	23.9	13.2
	South	18.6	14.9	14.2
	South West	24.5	16.7	18.5
	North West	14.2	13.2	13.9
	West	24.8	23.7	17.4
	South East	27.7	23.1	14.2
	Center	16.3	15.2	12.4
	Bucharest – Ilfov	12.6	6.9	9
Closed	National level	5.6	10.1	5.9
	North East	7.9	12.3	5
	South	9.7	9.6	7
	South West	7.4	13.1	7.4
	North West	5.2	12.5	6.4
	West	6.8	12.5	10.5
	South East	4	6.8	8.1
	Center	4.6	7.7	2.6
	Bucharest – Ilfov	3	8.1	3.8

Source: National Institute of Statistics, 2016

In 2014 the largest share of SMEs established less than a year were active (81.1%), while 13% were inactive and 5.9% were closed. It should be noted that in the period 2012 – 2014 increased the percentage of enterprises that have remained active, along with a reduction in the percentage of those inactive. Regarding regional analysis, it appears that the South East Region ranks sixth place of maintaining the activity of the firms in the first 12 months of operation, ahead of only the West and South-West Oltenia regions. Also, the average for this indicator is below the national average in the year 2014. It thus appears that, in order to increase the survival of companies in the region, are necessary measures to stimulate investment business training, mentoring and expert advice in this area and also grants to stimulate the initiation and development of medium and long-term business in the region.

### 2.3 SMEs density

In Table 3 it is shown the density of SMEs in 2015 in South East Development Region and in the component counties.

**Table 3 SMEs density**

	SMEs number	Inhabitants	SMEs density (number of SMEs at 1000 inhabitants)
South East	57751	2887747	20.00
Braila	6189	359876	17.20
Buzau	8918	482894	18.47
Constanta	20775	770750	26.95
Galati	11264	634853	17.74
Tulcea	4512	246419	18.31
Vrancea	6093	392955	15.51

Source: National Institute of Statistics, 2016

With 20.00 active SMEs per 1,000 inhabitants in the South East Region 2015 remains in fifth position in recent years after Bucharest-Ilfov, Northwest, West and Centre regions and density of SMEs in this region is under the national average. Most densely populated county and the only one that is consistently above the national average, with 26.95 SMEs / 1000 inhabitants is Constanta, while Vrancea recorded the lowest density of the region's counties, with 15.51 enterprises / 1000 inhabitants.

### 2.4 Number of employees in SMEs

Analyzing the number of employees at the regional level it can be observed a positive dynamic of this indicator in the period 2013 – 2015, this dynamic maintaining also nationally. The number of employees in 2015 to the South East region accounted for 10.99% of the national total, up slightly from 2014 but down from 2013 by 0.06 percentage points. The positive dynamics of this indicator recorded at regional level in 2015 was the same registered nationally, a sign that the region's economy is slowly increasing. However, compared to other regions of the country, the percentage of the national total number of employees is low.

**Table 4 Number of employees in SMEs at national and regional level**

	2013	2014	2015
National level	3950708	4077312	4101750
South East region	436646	446486	450920
%	11.05	10.95	10.99

Source: National Institute of Statistics, 2016

### 2.5 Gross investments in SMEs

Descending with 10% in the period 2013-2015, the gross investments of SMEs in the South East accounted for a share of investments exclusively downward. 2014 was a year of decline in terms of investments, with a decrease regionally and in 2015 the gross investments experienced a slight increase over the previous year. Given the level of gross investments, the South East was ranked fourth after Bucharest-Ilfov, Central and South Muntenia regions.

**Table 5 Gross investments in SMEs (thousands lei)**

	2013	2014	2015
National level	61076	66569	72883
South East region	8770	7771	7907
%	14.36	11.67	10.85

Source: National Institute of Statistics, 2016

### 2.6. The share of innovative enterprises by size at regional and national level

Although the number of innovative businesses nationwide declined in recent years, the level of South East statistic was progressive in 2010 ranking the 2nd place among the regions, while in 2014 occupied first position in this respect, beyond the national level, which means that in the South East the decrease of innovative enterprises was slower than in the other regions. At regional level small enterprises have the largest share, innovation receiving 36.42% and drops to 35.13% for medium enterprises.

**Table 6 The share of innovative enterprises by size at regional and national level**

Region	Size	2010	2012	2014
North West	Total	27.63	27.75	12.04
	Small-sized	23.69	24.68	9.98
	Medium-sized	38.70	38.58	20.33
Center	Total	30.57	24.46	21.19
	Small-sized	25.94	19.02	19.70
	Medium-sized	41.37	37.05	22.14
North East	Total	47.19	42.57	32.17
	Small-sized	44.91	39.94	30.65
	Medium-sized	52.32	51.38	36.94
South East	Total	44.62	36.90	36.48
	Small-sized	42.81	33.69	36.42
	Medium-sized	46.57	45.70	35.13

Region	Size	2010	2012	2014
South	Total	30.65	33.01	17.29
	Small-sized	27.04	28.57	11.53
	Medium-sized	36.06	41.78	31.02
Bucharest Ilfov	Total	35.81	32.66	18.54
	Small-sized	33.15	29.91	14.11
	Medium-sized	40.59	38.51	29.19
South West	Total	25.97	30.88	19.79
	Small-sized	20.42	28.53	20.15
	Medium-sized	38.71	36.68	17.05
West	Total	20.52	18.52	14.37
	Small-sized	15.60	15.32	12.97
	Medium-sized	32.81	22.89	15.44
National level	Total	33.31	30.82	20.67
	Small-sized	29.85	27.54	18.25
	Medium-sized	40.85	38.75	26.57

Source: National Institute of Statistics, 2016

### 3. Interest for entrepreneurial activities in the South East Region

To identify the interest to initiate entrepreneurial activities in the South East region, was applied a structural survey questionnaire to a sample of 300 people residing in one of the counties of the South East. The questionnaire contained 12 closed questions with one answer option, of which 7 are questions about the investigation and 5 are socio-demographic questions for identification of respondents.

The first question of the questionnaire was probed respondents' opinion about their intention to start a business in the near future. To this question, a percentage of 74.8% of respondents said yes, while 25.2% answered that they are not interested in starting a business in the near future. For the following questions, were considered only the respondents who answered "yes" to the first question.

Next question aimed at identifying the domain where respondents want to develop their business. To this question, most respondents (21.6%) said they want a business in the creative industries (advertising, architecture, art, crafts, design, fashion, film, music, TV, radio, research and development etc.). In contrast, the lowest business field preferred by respondents are food processing and beverages (3.1%).

The other favorite fields to initiate and develop a business are:

- IT (Information and Communication Technology) – 12.4%
- Tourism and ecotourism – 9.3%
- Textile and leather – 8.2%
- Wood and furniture – 12.4%
- Health – 5.2%
- Trade – 18.6%
- Other (accounting consulting, education, agriculture, social affairs, beauty services, service centers etc.) – 9.3%

The next question of the questionnaire relates to entrepreneurial knowledge and / or experience in the field of business concerned.

To this question, a percentage of 59% of respondents said they have entrepreneurial knowledge and / or experience in the wanted field of business, while 41% said the opposite. A cross-sectional analysis between labour market status and responses given to this question indicates that 16.95% of those who have entrepreneurial skills or experience in the field of business concerned are students, 47.46% are employed, 5.08% are unemployed, 16.95% are entrepreneurs and 8.47% are self-employed. The remaining respondents said other employment statuses (retired, household, child raising etc.).

Also, by age shows that the largest share of respondents who said they had entrepreneurial skills or experience in the areas it intends to set up business are aged 25-34 years old (40.68%), followed by those with aged 18-24 years old (18.64%). The fewest respondents who said they had knowledge or experience are those aged 55-64 years old (8.47%).

Next question probed interest in participating in entrepreneurship training programs. To this question, an overwhelming percentage of 83.5% of respondents said yes, while only 16.5% said they are not willing to participate in entrepreneurship training programs to improve knowledge and skills in this area.

Cross-sectional analysis revealed that among those who said they would participate in entrepreneurial training programs, 56.79% are people who have previously declared to have knowledge or experience in entrepreneurial intends to set up their business.

Also from the questionnaire was identified the percentage of people who have attended training in entrepreneurial skills over the past three years.

Analyzing the data collected shows that only 22.7% of all respondents participated in the last three years to development of entrepreneurial skills courses.

Also, an overwhelming percentage of 86% of all respondents said they do not currently hold an associate or shareholder in other companies.

Regarding the structure of the sample analyzed, it is shown the following:

- 14.4% of respondents are students, 44.3% are employed, 11.3% are unemployed, 16.5% are self-employed, 9.3% are entrepreneurs and the remaining 4.1% said other answers – householders, retirees, persons raising children etc.
- 17.5% of respondents were in the age group 18-24 years old, 36.1% in the category 25-34 years old, 21.6% in the category 35-44 years old, 15.5% in the category 45-54 years 9.3% in the category 55-64 years. None of the respondents had more than 64 years.
- Regarding the sex of the respondents, 44.3% were male and 55.7% were women.
- In terms of monthly income, 12.4% reported income below 500 lei per month, 17.5% between 500-1000 lei, 43.3% between 1000-2000 lei, 13.4% between 2000-3000 and 13.4% over 3000 lei.

## **Conclusions**

Analysis at the level of South East region revealed that among Romanian regions and compared with national averages, the South East has low socio-demographic and economic indicators during 2012-2015.

Regarding the analysis of the structure and dynamics of SMEs shows that construction was preferred in Bucharest-Ilfov, North-East and Centre; Trade was the major orientation of entrepreneurs in South-Muntenia, South-West Oltenia and Centre, while the transport sector had higher shares in the North-East, South-East. Finally, the "other services" registered shares much higher in the South-West Oltenia, West and Centre.

Ranked fourth in terms of number of enterprises in 2014, the South East was characterized by a negative trend in terms of number of active units and in turnover achieved. Business

density is below the national average and significantly below to the EU average: only Constanta County has several active SMEs / 1000 inhabitants, compared to the national level. (Eurostat, 2016). The number of employees decreased compared to the national level. Regarding the interest of the residents of the South East Region for initiating and developing entrepreneurial activities shows that there is a high interest for the creation of start-ups, for all ages (between 18 – 64 years) with a greater preponderance of people between 25-45 years. Also, although the majority of respondents have mid-level knowledge for market data, management, marketing, they are willing to improve their knowledge and entrepreneurial skills, both through training activities in the field and through consultancy sessions with experts in entrepreneurship and internships at companies, to learn the secrets of entrepreneurship.

The lower socio-economic indicators recorded lately in the South East region require strategic measures to support entrepreneurship through specialized training, consultancy and mentoring to initiate and develop business and infusion of financial capital (for example by giving financial aid for start-ups).

A series of measures to be implemented for economic rebound in the region are designed to support the development of SMEs and start-ups. In this sense, the lines of action focus on:

- developing and implementing projects with European financing to support entrepreneurship among the unemployed, employees and / or students from the region;
- orientation for supporting SMEs in start-up phase, in particular through business incubators and technology;
- supporting innovative SMEs in particular by fiscal advantages and venture capital;
- development of specialized advisory services oriented to the needs of SMEs;
- simplifying and improving the legislative and bureaucracy processes;
- developing public-private partnerships;
- developing national network of business incubators and science parks;
- Free access to loans for SMEs with low interest rates, leading to an increase in gross investments followed by an increase in staff employed in SMEs and finally, a growth of the region's economy.

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