

# ENTREPRENEURSHIP THE PILLAR OF SUSTAINABLE DEVELOPMENT OF THE ROMANIAN COMPANIES

**Otilia MANTA, PhD Lecturer**

Athenaeum University, Bucharest, Romania  
manta.otilia@univath.ro

**Elena-Maria ENEA, Student 3rd AA**

Athenaeum University, Bucharest, Romania  
enea.elenamaria@gmail.com

**Abstract:** *Supporting entrepreneurship development within the SME sector is a priority at both European Union and national level, as this category can contribute to the sustainable development of the economic sector both economically, financially and especially socially. The number of SMEs at both national and European level is very high, i.e. over 90% of the number of economic agents. Encouraging SMEs through financial and fiscal measures and financial incentives to boost entrepreneurship can contribute to a more dynamic and flexible economy, with the role of SMEs being larger than large companies, which are considered to be the backbone of any modern economies. Moreover, as the family is the basic cell of society, we believe that SMEs are the basic cell of the economy. Through this paper, we aim to make an entrepreneurial radiography among SMEs in Romania, especially in the current European context.*

**Keywords:** *entrepreneurship, sustainability, SMEs*

**JEL Classification:** *L26, Q01, D26*

## **Introduction**

Entrepreneurial culture plays an important role in the development of entrepreneurial activity, and Romania is excellent in this respect, with a

developed social capital and a positive attitude towards entrepreneurship. Romanian entrepreneurs are optimistic about the future of the business and the industry, expecting positive developments. This trend is similar to the one globally surveyed by Deloitte Private (2018).

The development of a business environment based on competitiveness and entrepreneurial spirit to cope with the competition on the internal market of the European Union and outside the European Union must represent the policy of any Government of Romania.

This type of policy should be centered on strengthening the central dialogue at all levels in order to increase its contribution to economic and social development and to implement an integrated and transparent strategy of capitalizing all factors which have an impact on the ability of companies in ROMANIA to compete on the single market and outside the EU, supporting SMEs to become competitive to prevent and limit the expansion of anti-competitive policies, to stimulate the capital market with fair and transparent rules. Any government should allocate 1% of GDP by 2020 to support SMEs.

In ROMANIA, the state's current SME policy is a mix of contrasting issues, given that relatively large amounts of money are invested annually, but there is no consensus on results, given that it still identifies some problems in terms of growth given by SMEs because the state does not always encourage it through SME policies.

The problems identified are numerous. These include: lack of entrepreneurial culture (not only among young people), hard access to funds for SMEs, fiscal instability, which gives a lack of predictability of the Romanian economy, poor access to auctions for public procurement, excessive bureaucracy. For this reason, there are 2.2 SMEs per hundreds of people in Romania, which represents half of the European average of 4.5.

### **Research methodology**

The methodology of the paper will have as direct instruments the collection of data and information from the literature and from the existing practice in public and private institutions, but especially scientific articles published on specialized research networks (ResearchGate, Academia.edu, etc.), articles published in different journals, relevant books in the field of reference, legislation, analyzes and studies, official documents of various tax bodies, tax documents and interactive database of the Ministry of Business, Commerce and Entrepreneurship and other relevant sources identified at the libraries: National

and International Library, INS, etc. Moreover, in the methodology we will analyze the documents using the comparative, analytical, descriptive method, non-participative and participatory observation, the use of a set of informational sources, the collection of financial data in the established databases. Also, the paper will be based on annual reports, publications, consolidated statistical data provided by the World Bank, CGAP, CFI, the European Commission, OECD, published annually, data to be processed in order to be able to provide a general and analytical picture of the most important changes taking place in the globally - considered representative for the understanding of the phenomena studied about entrepreneurship (Manta 2019).

### **Research results**

In Romania, microenterprises support less than 60% of GDP and the EU average exceeds 70% of GDP (OECD 2018). In 2009, a simplification of administrative procedures was initiated in ROMANIA in partnership with the OECD. Withal, important steps have been taken to support SMEs by adopting in 2010 the Small Business Act (European Commission (2013), which is the framework for SME support policies.

Another measure of support for young beginners was the Startup law, which later became the Start-up Nation designed to sustain financially newly established businesses (Law 133/1999). Supporting the development of the small and medium-sized enterprises (SME) sector is a priority at both European Union and national level, as this extremely large category of economic agents, more dynamic and flexible than large companies, is the backbone of any economy modern.

In the struggle for market survival, the effective management of own financial resources and the attraction of external funds at affordable costs prove to be, together with the innovation activity of the products and services offered to the market, really decisive factors that entrepreneurs are obliged to keep account. In Romania, 99% of companies are SMEs, which produce 60% of GDP and employ 60% of the workforce.

Considering the disastrous situation in 2016 regarding the absorption rate and the number of projects submitted, the Government proposes to accelerate the spending rate of European funds to reach a rate of 72.5% until 31 December 2020 and 100% up on December 31, 2023. Romania has the chance to create more jobs and bring more resources to the state budget. At the same time, statistics show that young graduates find a job with a lot of difficulty, lack of cash resources preventing them from starting business. The legal framework for the emergence

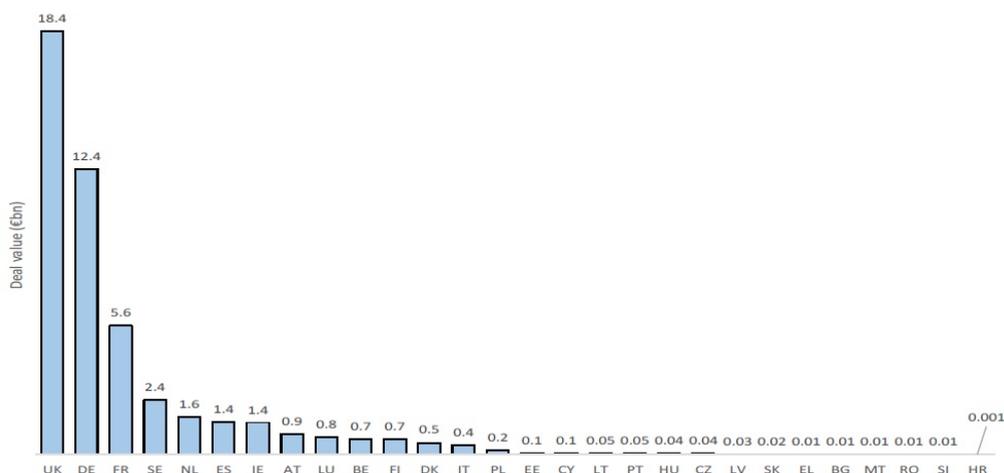
and development of small and medium enterprises in Romania is represented by the following normative acts:

- a) Law no. 31/1990 on societies, republished, as subsequently amended and supplemented;
- b) Law no. 346/2004 on the stimulation of the establishment and development of small and medium enterprises, with subsequent amendments and completions;
- c) H.G. no. 859 of 7 October 2014 on the approval of the Governmental Strategy for Small and Medium Enterprises Development and the Improvement of the Romanian Business Environment - Horizon 2020.

Stimulating the general framework for setting up new businesses is a necessity to ensure the growth of the number of active enterprises on the market and to increase the number of jobs. However, public policies need to adjust at a faster pace and take a number of quick steps to regain confidence and economic stability.

Prior to the Start Up Nation, in order to support SME lending, the SME loan guarantee fund, which gives the bank a new comfort by assuming a percentage risk of loans made by SMEs, and the counterpart fund -guarantee of SME loans were set up. Mandatory government measures also require permanent capitalization of these funds (Law 133/1999 ).

Figure 1. Aggregate value of venture capital deals in EU-28 Member States for years 2015-2017

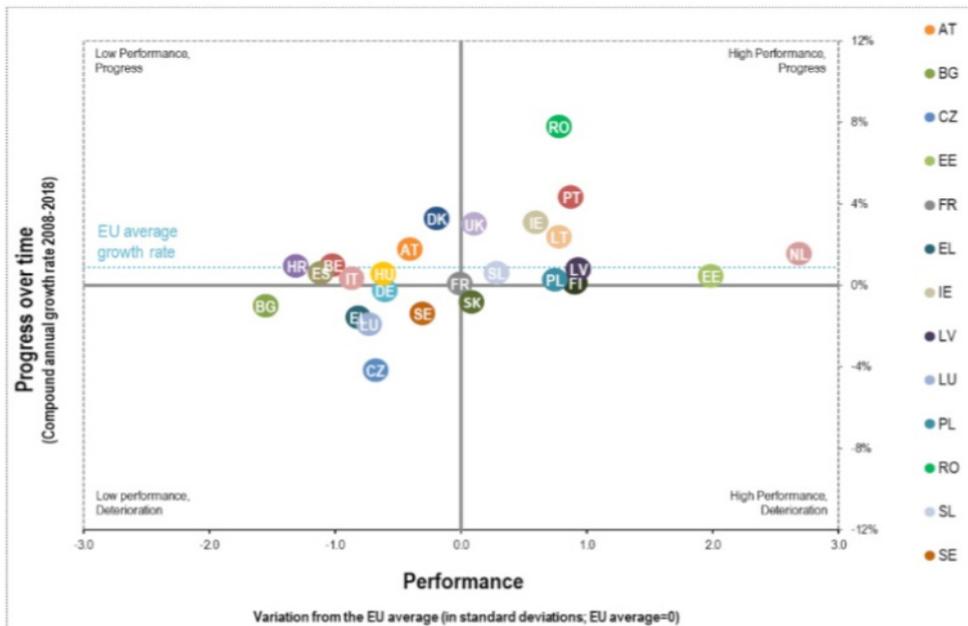


Source: European Commission (n.d.) Eurostat 2018

In Romania, 7/10 SMEs self-finance which means the reduction of the expenses they make for competitiveness. Regarding the financing of startups from venture capital funds, the most recent data of the European statistics are for the period 2015-2017 (European Commission n.d.). In Romania, venture capital funding was only 10 million euros for startups. We must not ignore the Maastricht Treaty (1992) which refers to economic competitiveness as one of the obligations we have to meet for joining the Eurozone, and which we find in the EU 2020 strategy for 2020, which refers to a smart, competitive and inclusive economy.

The 2009 crisis has succeeded to make those with a certain entrepreneurial culture stand on other stronger business principles so they remain competitive and resist the market. There is indeed a dynamic of SMEs, while some disappear from the market, others appear. According to Zamfir (2018) in the last 12 months, in terms of entrepreneurial activity, Romania is on the 6th place, on the same footing as Lithuania, among the 28 EU member states. The top places are the Netherlands, Estonia and Latvia, and the last three places are Spain, Croatia and Bulgaria.

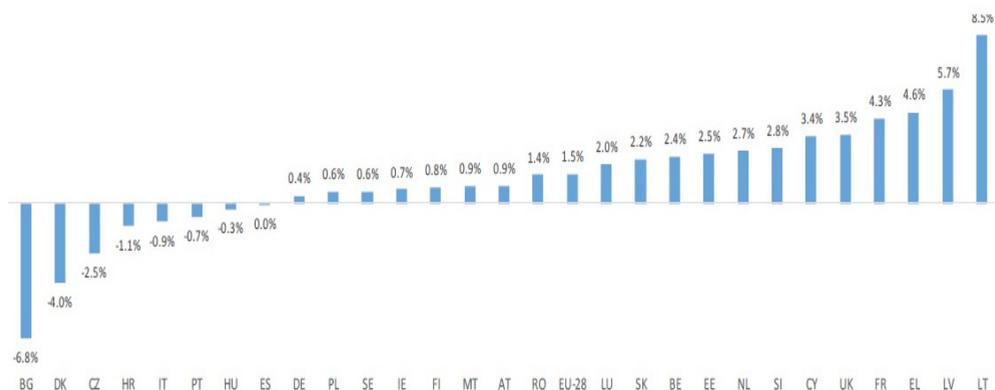
Figure 2. Positioning of each EU-28 Member State in terms of their performance and progress over time for entrepreneurship for the years 2008-2018



Source: European Commission (n.d.) Eurostat 2018

The merit of Romanian entrepreneurs is all the greater if we take into account that the Romanian state, through its administration, has rather put roots in small businesses through the changing tax system. Romania dropped to Doing Business 2019 in position 52 in 190 countries after the World Bank rankings in the 2018 edition when it was on the 45<sup>th</sup> position. A steep fall we suffered in the parameters that measure the ease with which a business can start: 111<sup>th</sup> place now, versus 64, last year. „Romania has started a more complicated business by introducing risk analysis criteria for VAT registration companies, increasing the time it takes to register as a VAT payer,” notes the Doing Business 2019 report recently released by the World Bank. However, we take the penultimate place at European level in terms of sustainability of entrepreneurial initiatives: more than half of the newly established companies fail to survive the critical period of 42 months (they close or suspend their activity).

Figure 3. Average net enterprise birth rates (birth rate minus death rate) for the years 2012-2015



Source: Eurostat 2018 (Annual Report on European SMEs 2017/2018)

The business environment does not have a political color, the measures taken to boost the business environment can be proposed by left-wing or right-wing politicians who are part of the government, but these measures are designed to support the development of a sustainable economy and a predictable business environment.

Another fact worth mentioning is that Romania ranks 29<sup>th</sup> out of 57 in terms of creating a business environment that supports women's entrepreneurship. We therefore confirm that the current regulatory framework

and entrepreneurship support programs seem to disregard the specific needs of women in general and specifically female entrepreneurs.

More than half of Romania's population is female, an „emerging market” with a high potential for competence, ambition and ingenuity. But today only one in two women is officially employed. The unemployment rate is, however, lower than that of men. Although females enrolled in university education are the majority, women are more numerous among low-income earners and are active in lower-paid jobs. The gender pay gap has halved in the last decade in Romania, but continues to be very pronounced in some areas of the country.

Romania has the third lowest employment rate among women in the European Union, according to data published by the World Bank. In fact, only one in two women have a job, while in Sweden, the highest ranked, 8 out of 10 women have a job. The largest gender discrepancy is among employers/entrepreneurs: the number of women is 2.6 times lower than that of men in Romania.

Table 1 - Personal interpretation of the statistics on employment and activity for males and females aged between 20 and 64 years for the years 2012-2017

Geo	Time	2012	2013	2014	2015	2016	2017
European Union - Female		105.879	106.526	107.110	107.352	107.998	108.520
European Union - Male		124.887	124.898	125.036	125.233	125.723	126.056
Romania - Female		3.797	3.763	3.775	3.705	3.645	3.733
Romania - Male		4.928	4.947	4.987	5.014	4.924	4.956

Source: Eurochamber (September 2012) Eurostat, 2018

To the question „How can women contribute to economic development?” Andreea Paul (2018), Ph.D., economics lecturer at the Faculty of International Economic Relations of the Bucharest Academy of Economic Studies, answers: “Romania can achieve a 11% increase in GDP by 2025 by reducing gender imbalances in society to the best European practices. That means another 30 billion euros in GDP by 2025. My estimates have taken into account the GDP forecasts under the standard economic growth conditions, to which we applied the McKinsey methodology proposed in the September 2015 report on this subject. The potential additional economic growth of € 30 billion is equivalent to a plus of € 1,500 to GDP per capita in Romania in 2025, which

can be achieved through a balanced gender policy in the economy, politics and society, at standards the highest Europeans.”

## **Conclusion**

To summarize, there is a visible growth for the entrepreneurial segment in Romania, but this can be noted to be just a start of an entrepreneurial consolidation in Romania. There are many aspects which are yet to be improved.

First point of action would be for Romania to implement a concrete program of entrepreneurial education. 23% of Romanians say they have participated in at least one entrepreneurial education program, the percentage being equal to the one registered in the European Union. However, they are dissatisfied with the quality of entrepreneurial education they have received and believe that they are supported by people who are not related to the entrepreneurial environment. The lack of a connection between school and the business environment is the main problem of entrepreneurial education in Romania, and its solution lies at the basis of improving the low level of sustainability of newly established companies.

Another big problem of the Romanian entrepreneurial ecosystem is the lack of access to finance. Fears about the insufficiency of funds are added to those related to the inability to repay the debts. These problems diminish with the elderly, when entrepreneurs realize that there are many financing options available in Romania and abroad.

Gender impact should also be mention. In my opinion, the record of the speed of political modernization in Romania can be achieved by introducing gender quotas. And the record of jump in economic length can be achieved by reducing gender gaps.

Economic stability at both macro and micro levels has the same fundamental elements, which, given the interdependence between the two environments on the local and global entrepreneurial market, is a natural and direct consequence of functionality. Entrepreneurial financial instability as a risky financial stability event is also based on macro-and micro-based common elements; In addition, the two types of entrepreneurial financial instability influence each other, starting from the least disturbances of the stability state. In the opposite direction, the entrepreneurial financial stability of the two environments is a necessary objective for the evolution of the local and global entrepreneurs market. In addition, as an important part of the entrepreneurial organizational culture, the general and main objectives should be understood

as being common to the two environments, and the specific objectives should be introduced, on a reciprocal basis, into the equations of the entrepreneurial administrative models of the two environments (Manta 2019).

The paper attempts to capture these aspects of the types of entrepreneurship developed locally at present, without neglecting other visions, when appropriate. Moreover, the paper captures aspects of international practice based on the views of the great scientific personalities of our century that have approached the phenomenon of entrepreneurship at the local and global level, namely the globalization of entrepreneurs' markets, as well as personal entrepreneurial experience with a direct impact on the sustainable development of small entrepreneurs and their businesses at local, national, European and global level (Manta 2019).

## References

- Annual Report on European SMEs 2017/2018, The 10<sup>th</sup> anniversary of the Small Business Act, Available at: [https://www.scribd.com/document/393669806/SME-Annual-Report-eBook#from\\_embed](https://www.scribd.com/document/393669806/SME-Annual-Report-eBook#from_embed).
- Deloitte Private Study (2018). *Global perspectives for private companies, Plans, priorities and expectations*. Canada: Deloitte Private.
- Eurochamber (September 2012). *Position Paper on the Entrepreneurship 2020 Action Plan*. Available on-line at [http://www.eurochambres.eu/objects/1/Files/Entrepreneurship\\_Action\\_Planresponse\\_Commission\\_consultation.pdf](http://www.eurochambres.eu/objects/1/Files/Entrepreneurship_Action_Planresponse_Commission_consultation.pdf).
- European Commission (2013). *Entrepreneurship 2020 Action Plan- Reigniting the entrepreneurial spirit in Europe*. Available on-line at <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0795:FIN:EN:PDF>.
- European Commission (2019). *Promoting entrepreneurship*. Available at: [http://ec.europa.eu/growth/smes/promoting-entrepreneurship/index\\_en.htm](http://ec.europa.eu/growth/smes/promoting-entrepreneurship/index_en.htm).
- European Commission (n.d.). *Eurostat statistics 2012 – 2017*. Available at: <https://ec.europa.eu/eurostat>.
- Law 133/1999 on the stimulation of private entrepreneurs for setting up and development of small and medium enterprises.
- Manta, O. (2019). Entrepreneurship, a determinant factor in the Sustainable Development of Small Businesses. *Jurnal Perspektif Pembiayaan dan Pembangunan Daerah*. 6. 389-406. 10.22437/ppd.v6i4.6134.
- OECD (2018). *Entrepreneurship at a glance – 2018 Highlights*. Available at: <http://www.oecd.org/sdd/business-stats/EAG-2018-Highlights.pdf>.

- Paul, A. (2018). "How can women contribute to economic development?" Faculty of International Economic Relations of the Bucharest Academy of Economic Studies.
- The World Bank (September 2018). Employment to population ratio Available at: <http://www.postprivatizare.ro/romana/wpcontent/uploads/2012/10/StudiuAntreprenoriat.pdf>.
- Zamfir, C. (2018). Romanian entrepreneurs have made the most progress in the EU, although many Romanian firms die (report), <https://www.startupcafe.ro/idei-si-antreprenori/romania-firme-uniunea-europeana.htm>.