

# Some Characteristics of the New Enterprises and the Profile of New Entrepreneurs

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## *Abstract*

*The implementation of a scientific management generating performances that can lead the sector of SMEs to the requests of the Lisbon Strategy, cannot be completed without the existence of well-trained entrepreneurs, capable to improve their skills in modern management, thus leading to competitive results in a highly competitive market.*

*The analysis performed by this research allows us to formulate, synthetically, strengths and weaknesses in the entrepreneurial evolution during the 1995-2007 period.*

**Keywords:** *new enterprise, entrepreneur, new enterprise foundation rate, the entrepreneur's socio-professional profile, the entrepreneur's level of education*

**JEL classification:** L26, M13

## **1. Introduction**

Implementing a modern management in the context of a knowledge-based society and the current financial crisis cannot be featured without “manager-entrepreneurs” with a solid professional preparation and natural managerial abilities, consolidated through a continuous process of training.

In order to describe the managerial capacity of the new entrepreneurs, we realized an analysis of the main characteristics of the newly founded enterprises<sup>1</sup> as well as of the new entrepreneurs. This image offers us a possible explanation of the way the economy is going as a whole and also some perspectives on the evolution of the entire sector of the SMEs.

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<sup>1</sup> By “newly founded” we refer to the REGIS registration – national register of the foundation of a new entity: commercial company, or individual entrepreneur in non-agricultural activities. Certainly, the “new enterprises are from the SMEs category” for the big enterprises usually come from divisions, fusions, or growths in time of the middle-sized ones.

The main primary data were obtained based on an investigation carried out by the National Institute of Statistics, an investigation EUROSTAT harmonized<sup>2</sup>.

In 2007, 163.845 new enterprises were founded, and were still active in September 2008. The comparisons are made relative the existent number in 1995, which were 388.180 enterprises<sup>3</sup>.

## 2. Characteristics of the New Enterprises Foundation Process

**2.1. The foundation rate**, calculated by comparison to the existent number in January 1<sup>st</sup> 1995, is placed in the field 13-17% until 2001, afterwards registering a significant growth, due to the improvement of the business environment, also leading to a growth of the national production expressed through the GDP.

**The number of new created enterprises**

**Table 1**

No.	Period	Number of enterprises
1	Stock – January 1995	388.180
2	Newly founded in the year : 1995	68.772
3	1996	51.684
4	1997	50.516
5	1998	66.841
6	1999	55.852
7	2000	63.941
8	2001	63.383
9	2002	92.595
10	2003	123.178
11	2004	143.411
12	2005	164.466
13	2006	141.822
14	2007	163.845

*Source: New enterprises and the profile of the entrepreneurs in Romania, NIS, Bucharest, 2009*

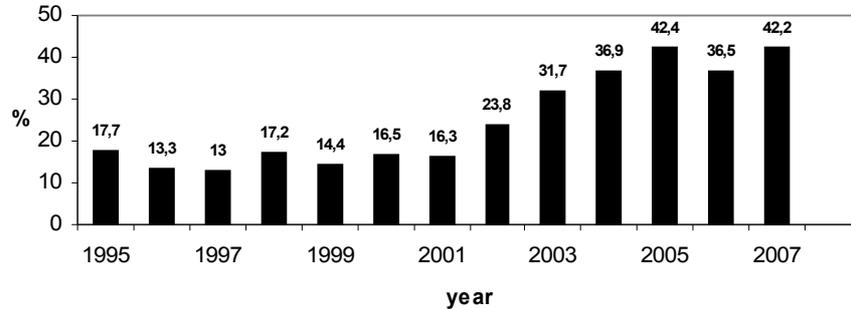
Figure 1 presents the foundation rates calculated by division of the newly founded enterprises to the existent number in January 1995. The absolute values of the new enterprises, from table 1, next to the rates illustrated in figure 1, highlight a dynamic trend, especially after the year 2000, which reflects a entrepreneurial

<sup>2</sup> The survey, performed on a sample of 5471 new enterprises, representative on CAEN and regional activities, was focused on newly founded enterprises in 2007 which were active in September 2008, when the survey ended.

<sup>3</sup> The foundation rate is calculated by division of the existent no. in 1995 Jan 1<sup>st</sup> (388.180) to the no. of new enterprises at the end of September in each compared year.

environment more and more favorable, and if we correlate this fact with the age of the new entrepreneurs, mainly young people, we can appreciate the consolidation of the entrepreneurial market in Romania.

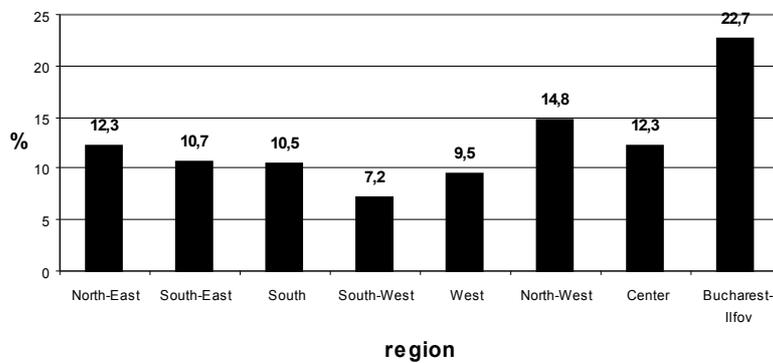
**Figure 1 - The new enterprises foundation rate in the period 1995-2007**



**Figure 1 The new enterprises foundation rate in the period 1995-2007**

**2.2. The regional dimension of the new enterprises foundation.** By regions, the partial rates indicate a maximum dynamic of the Bucharest-Ilfov region (9,6%), while the South-Western (3,1%) and Western (4%) regions register minimum dynamics. In the analyzed period, a certain diminution took place concerning the regional discrepancies, although the differences remain high. Thus, in 2001 the foundation rate was 2,9 % in the North-Eastern region while 1,3% in the Western region, which imply the necessity to apply in a different manner the policies for the activation of the regional economic environment.

The weights by regions of development indicate high values in Bucharest-Ilfov, North-East and Center regions (details in Figure 2).



**Figure 2 The regional structure of the newly founded enterprises**

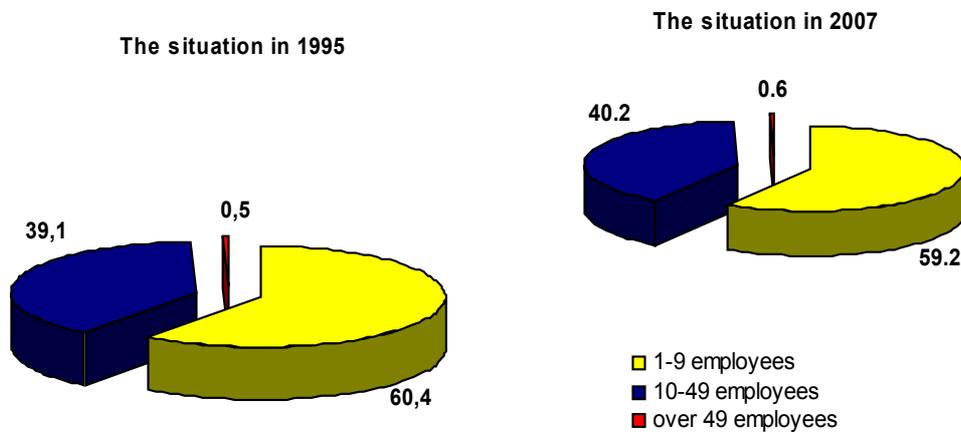
From the regional dynamics point of view, the situation for the last three years concerning the foundation of new enterprises is as follows:

- North-East: 179,6 %
- South-East: 153,0 %
- South: 290,5 %
- South-West: 297,5 %
- West: 315,8 %
- North-West: 251,1 %
- Center: 296,1 %
- Bucharest-Ilfov: 397,4 %

Except for the Bucharest-Ilfov region, which is in a special situation, we can observe an increased dynamics in the regions that still have low weights in the national total (South-West, West and South), which can be interpreted as an efficient response to the economic development stimulation actions, and to the private initiative in the less developed regions.

**2.3.** From the point of view of **the judicial status** of the newly founded SMEs, in 2007, 56,7% were trade companies, while 43,3% were individual parties. The new enterprises are mainly newly initiated businesses, thus in 1995 prevalent were the newly founded ones (97,1%) while only 1,1% were created through other methods, while in 2007, the size of the newly founded decreased to 98,4%, and 1,6% were created through privatization, divisions or other methods.

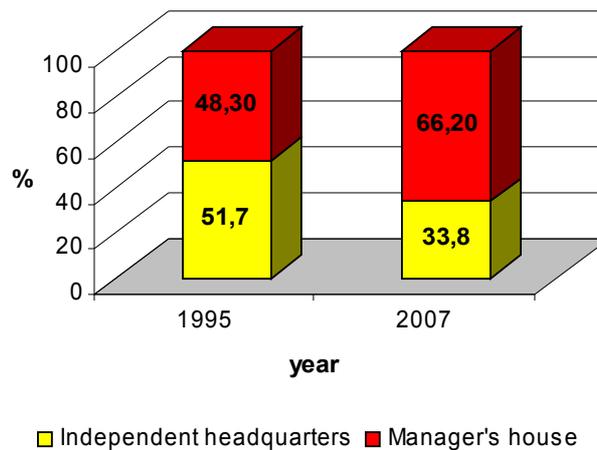
**2.4.** By **size category** we can observe after 1995, a tendency towards small enterprises rather than micro enterprises. Figure 3 illustrates this situation. However, the process meets some powerful fluctuation each year, thus in 2006 the largest weight of newly founded enterprises (53,4%) was held by medium sized enterprises, while micro enterprises only had 45,95 of the total.



**Figure 3** The structure of the newly founded enterprises, by size category

Between 1995 and 2007, the number of micro enterprises decreased by almost 19%, while the number of newly founded small enterprises increased by approximately 42%.

**2.5. By activity location**, an aspect that reflects the economic strength of an enterprise, the main modification is represented by the decrease of the weight of new enterprises which operate in an independent headquarters (-34,6%) and the increase of the weight of those which have the headquarters in the manager's house (+37%). This change in weights in favour of newly founded enterprises located in the house of the manager is a negative signal concerning the dimension and evolution of the activity of the new enterprises.



**Figure 4 The structure of the active new enterprises by headquarters location**

**2.6. Another important aspect is the structure of the enterprises by sectors of activity**, the main changes being represented by the decrease in the weight of the enterprises which have a commercial activity (60% of them) and an industrial activity (57,9%) while there is a significant increase of the weight of firms in the category "other services" (+566,7%) which represent over 50% of the activity for the newly founded enterprises.

The orientation of the new entrepreneurs towards the services sector is remarkable, this fact resembling the structure of the Romanian economy to the economy of developed countries, at least as tendency manifested by entrepreneurs.

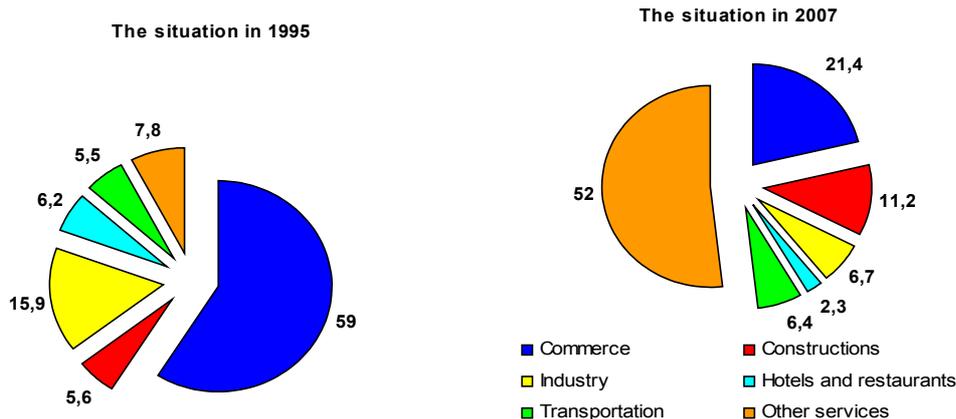


Figure 5 The structure of the newly founded enterprises by sectors of activity

### 3. Socio-professional characteristics of the “new entrepreneur”

The image of the newly founded enterprises must be completed with some characteristics regarding the entrepreneur of these new businesses, such as: the staff status, the entrepreneur’s age and gender, his educational level, the occupation prior to the new business.

**3.1. The status of the staff** for the new enterprises. Comparing to 1995, the weight of employers decreased from 43.0% to 36.0% in 2007, the number of full-time employees increased from 40,9% to 56,7%, and the weight of other employment forms faced a significant decrease from 13,9% to 2,7%. This is also a signal regarding the consolidation of the SMEs sector, an employees-based organization form giving the possibility of practicing a version of management superior to the “employer-manager” one.

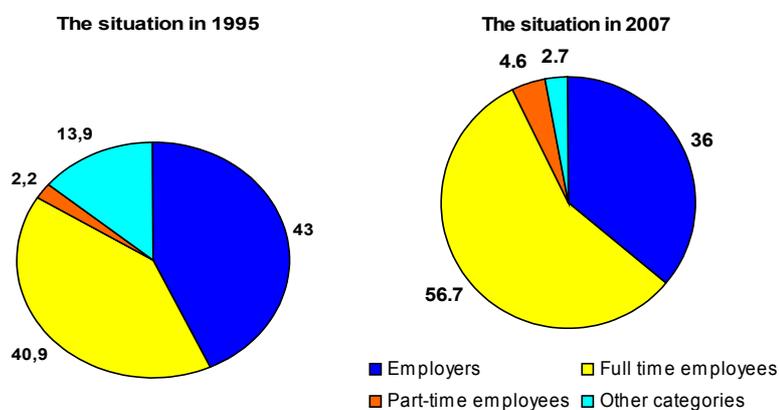
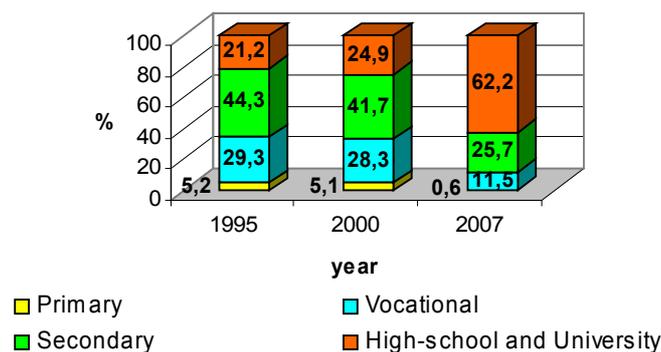


Figure 6 The staff structure in the new enterprises

**3.2.** Regarding the **founder-manager's age** we observe a growth in the weight of young initiators (under 30 years old), from 19,9% in 1995 to 35,4% in 2005, respectively of those between 30 and 39 years old, from 30,1% to 37,4 %, simultaneous to the decrease of the weight of founders between 40 and 49 years old. Moreover, the new entrepreneurs under the age of 40 represent almost 50% of the total, which generates a plus in dynamics and competitiveness for the SMEs sector.

**3.3.** An equally remarkable fact is the growth in the weight of **female-entrepreneurs**, from 29,1% in 1995 to 37,9% in 2001, respectively 35,8% in 2007. By regions of development, the lowest weights of female-managers were registered in 2007 in North-East – 30,3% respectively in Bucharest-Ilfov – 32,2%, while the highest were registered in North-West - 43,8%; however, the considerable fluctuations from year to year do not allow us to identify a specific trend.

**3.4.** The distribution of newly founded enterprises by **educational level of the manager-founder**, correspond to a structural change in the periods 1995-2000 respectively 2001-2007. Up until 2001, the weight of new enterprises founded by entrepreneurs with a primary education was around 5% (6,4% in 1999), with a vocational education approximately 30% (34,8% in 1999) while the weight of entrepreneurs with secondary-school education was around 40%, and with high school and university education around 25%. Since 2001, the primary educational level had weights around 1% or 2%, the vocational one under 20%, secondary-school approximately 35% and high-school and university levels around 50%.



**Figure 7 The structure of manager-founders by level of education**

The values for the high-school and university levels of education are distributed between 77% at a national level, and 50% for the Bucharest-Ilfov region (only 32% in 2005). This aspect can also explain, in part, the differences of regional performance between SMEs.

**3.5. The socio-professional category** of the new entrepreneur is another important dimension. At a national level, the weight of entrepreneurs, whom previously had management positions, fluctuated from 1,2 in 2001, to 6,8 in 2003 and 3,5% in 2007, while the weight of unqualified workers, from 70,2% in the year 2000 to 36,9% in 2007. Meanwhile, 8,4% of the new entrepreneurs had a technical professional status, increasing to 40,3% in 2007. This fact is an aspect which highlights the potential of a superior management in the newly founded enterprises.

**The distribution of the newly founded enterprises by the founder's previous socio-professional category (%)**

**Table 2**

<b>Year/Region</b>	<b>Management positions</b>	<b>Technical occupations</b>	<b>Qualified workers</b>	<b>Unqualified workers</b>
<i>North-East</i>	1,1	44,5	21,6	32,8
<i>South-East</i>	5,6	42,4	15,2	36,8
<i>South</i>	5,4	37,5	26,7	30,4
<i>South West</i>	5,5	41,3	18,0	35,2
<i>West</i>	2,5	43,6	16,8	37,1
<i>North West</i>	2,1	34,2	21,1	42,6
<i>Center</i>	0,0	44,2	17,3	38,5
<i>Bucharest-Ilfov</i>	6,1	38,7	15,1	40,1
<b>National average</b>	<b>3,5</b>	<b>40,3</b>	<b>19,3</b>	<b>36,9</b>

*Source: New enterprises and the profile of entrepreneurs in Romania, NIS, Bucharest, 2009*

In table 2 it is presented the distribution of new enterprises by regions of development according to the founder's previous socio-professional category.

The high weight of unqualified workers in the total number of new entrepreneurs, who, along with the qualified ones represented 77,0% in 2006 respectively 56,2% in 2007, can explain, in part, the financial situation and performances of the SMEs, when correlated to the absence of specific managerial courses. Differences between regions regarding professional categories can also explain, in part, the inter-regional differences in the economic performances of the SMEs.

#### **4. Conclusions**

The implementation of a scientific management generating performances that can lead the sector of SMEs to the requests of the Lisbon Strategy, cannot be completed without the existence of well-trained entrepreneurs, capable to improve their skills in modern management thus leading to competitive results in a highly competitive market.

The information contained by the tables and graphs presented in this paper allow us to formulate some strengths and weaknesses in the entrepreneurial evolution after the year 1995.

<b>Strengths</b>	<b>Weaknesses</b>
1. A growth tendency in the rate of founding new enterprise especially after 2001.	1. The Bucharest-Ilfov region remains in the top of the business implementation rates as well as in the top of the structure of the existent volume (approximately 23 % in the total of new enterprises).
2. The partial diminution of the regional discrepancies regarding the dynamic and structure of the newly founded enterprises.	2. In the period 1995-2007, the dynamic in the foundation of new enterprises was approximately 400% in the Bucharest-Ilfov region, while in the South-East region, only 153%.
3. The new entrepreneurs prefer trade companies as judicial form when founding a new enterprise (57%) as against to individual parties, thus implying bigger economic power and various managerial options.	3. There is a decrease of the weight of newly founded enterprises which activate in an independent headquarters, and an increase of the ones activating in the house of the manager (66% of the total number of newly founded enterprise in 2007).
4. After the year 2000, there was registered a shift in the options of new entrepreneurs, from micro enterprises to small and medium-sized enterprises.	4. The existence of a yet high weight of the new entrepreneurs with poor professional education (almost 38% of the new entrepreneurs in 2007 had primary, vocational and secondary education), considerably reducing the chances of implementing a scientific management.
5. The tendency to shift the object of activity toward the sphere of services, as well as the decrease of trade-related activities (from 60% in 1995 to 21% in 2007).	5. The occupational status prior to founding the new business is still poor (56% of the new entrepreneurs are unqualified or qualified workers), thus narrowing the chances for a scientific management.
6. The change of the staff structure in the newly founded enterprises, by reducing the weight of employers in favor of the employees (e.g. the employees used to represent 40,9% of the staff in 1995, respectively 56,7% in 2007), which allows the implementation of a different type of management.	
7. There has also been registered a significant decrease in the age of the new entrepreneurs (the category under 40 years old representing almost 60% in 2007), together with the improvement in the educational status (60% of the new entrepreneurs have high-school and university education), which offers new possibilities of implementing a scientific management	

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