

Entrepreneurship Perceptions in Romania: Where Do We Stand?

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Abstract

In Romania, like in other ex-communist countries, entrepreneurial culture is still recovering from more than 50 years of communism. Romanian academic research in the field is still at its beginnings, with more primary research needed.

In this article we aim to offer an analysis of perceptions of entrepreneurship of potential entrepreneurs, based on the interpretation of the results of a primary research regarding entrepreneurship developed in April 2012. The results of the survey show that Romanian potential entrepreneurs are mostly motivated to open a business by the financial security, profit, independence and financial prosperity. On the overall, Romanians manifest an internal locus of control, considering that motivation is the second important condition for success in a business. Also, they manifest trust in business, management and entrepreneurial education and a positive perception of their own entrepreneurship potential, a cultural and social background that is positive for entrepreneurship development; despite this, additional institutional and financial support is still needed, according to the perceptions of the respondents.

Keywords: *entrepreneurship, Romania, start-up, primary research.*

JEL classification: L26, N84, O12

Introduction

In context world confronted with the complex issues of globalisation, technological change, financial crisis and increased uncertainty, entrepreneurship is believed to be one of the few options that can offer ways to meet the new economic, social and environmental challenges.

Generally considered as an important driver for economic development and, at the same time, a multi-faceted phenomenon, entrepreneurship has also gained its status as a legitimate scholarly research subject (Vesper, 1987), with a history of the concepts that has been evolving since the 1500s (Smart & Conant,

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1994). Entrepreneurship is generally approached in socio-psychology, management and economics (Stevenson & Jarillo, 1990). In the last fields, definitions of entrepreneurship abound. One comprehensive definition belongs to Smart and Conant (1994), that described it as the goal-oriented process whereby an individual identifies marketplace opportunities using creative thinking, securing resources, and adapting to the environment to achieve the desired results while assuming some portion of the risk for the venture. The role of entrepreneurship in the economy has been traditionally associated with its innovation function, based on Schumpeter's approach, informational function, an efficiency, market regulating function or a job creation function (Howard & Jarillo, 1990). Its role in the economy has been extensively studied and empirically tested. Wennekers, et al. (2005) confirm similar studies and emphasize that the impact of entrepreneurial dynamics on economic growth varies according to the level of economic development. Wennekers, et al., (2005) consider that the influence of entrepreneurship is "considerably smaller (or even negative) for developing countries than for more highly developed economies (...) entrepreneurial dynamics play a different economic role in countries at different stages of economic development". This may become problematic, since entrepreneurship is particularly important in emerging economies, in which it can sustain growth rates, increase employment and satisfy the newly created needs of niche markets. There is also evidence that some countries and societies are more inclined towards entrepreneurial activity than others (Mueller, 2004).

In Romania, like in other ex-communist countries, entrepreneurial culture is still recovering from more than 50 years of communism. According to Chelariu, et al., (2008), in transition economies, new businesses have emerged in spite of the "formal" political and economic institutional limitations. Wennekers et al. (2005) demonstrated empirically that in (former) centralized command economies the cultural and institutional inheritance is less suitable for entrepreneurship development. Romanian academic research in the field is still at its beginnings, with more primary research needed to be carried out.

In this context, we aim to offer an analysis of perceptions of entrepreneurship by potential entrepreneurs, based on the interpretation of the results of a primary research regarding entrepreneurship. The research was carried out in April 2012, in three Romanian regions: Bucharest-Ilfov, Centre and North East². The representative sub-samples consisted of 1200 employees, 360 managers, 360 actual entrepreneurs and 480 potential entrepreneurs (students, un-employed, retired people).

This article will explore the perceptions of the subsample of potential entrepreneurs, by performing a primary analysis and interpretation of their answers on some of the topics addressed in the questionnaire. The answers interpreted are for all the three regions; regional differences are not taken into account in this article.

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1. Past research on Romanian entrepreneurship

According to Eurostat, there are 23 million Small and Medium Enterprises (SMEs) in the European Union, i.e., 99% of businesses, that are considered to be a key driver for economic growth, innovation, employment and social integration. The public discourse is entirely supportive of entrepreneurship development, and public money is redirected towards fostering entrepreneurial culture and dynamics, through measures as institutional capacity building or large scale training opportunities. But the relation between the external environment and the propensity to entrepreneurship is still uncertain in academic research. For example, despite governmental efforts, only 45% of Europeans would like to be self-employed, compared to 49% of Europeans that would prefer working as an employee, according to the 2009 Euro barometer Survey on Entrepreneurship.. For a comparison, 55% of American citizens expressed their preference for being self-employed, 71% of the Chinese people and only 39% of the Japanese.

Asked, in the 2011 Euro barometer, whether they would consider starting an own business in case they lost their job, 24% Romanians have answered that they definitely did not consider this option, 21% - probably not, 17% - probably yes and only 7% showed that they definitely considered to start a business on their own. Equally worrying, the vast majority (31%) did not know what to answer. The situation in the EU is even worse: 45% of the European respondents are really sure that if they lose their jobs, they are not considering opening a business, 25% consider that they will probably not do it, meanwhile just 8% are sure of opening a business if they lost their jobs.

If the analysis of the factors that explain the actual challenges of entrepreneurship at European level is beyond the scope of this paper, we may look at some considerations on this aspect for the case of Romania.

The Romanian actual entrepreneurial dynamics is determined both by historical factors, such as the communist experience that has hampered the accumulation of business experiences and the transition period, cultural and sociological peculiarities and also the effect of the financial and economic crisis.

During the communist regime, the education system was biased towards hard sciences, engineering and less to social sciences, law, business, public policy (Lafuente & Rabetino, 2011). On the overall, “the communist dictatorship in Romania has flattened society and made initiative, critical thinking and innovation dangerous” (Dalton & Kennedy, 2007), which, in turn, has affected managerial culture, leadership practices and entrepreneurship development. The development of these parameters of an entrepreneurial culture have to be understood as cultural transformations, for which a long time horizon is needed.

Cojanu (2006) takes a Schumpeterian vision of economic development by approaching regional evolutions through the study of entrepreneurship. He concludes that good performing Romanian counties (for example, Braşov, Timiş, Cluj, Iaşi, Bihor, Bacău, Galaţi, Prahova, Mureş, Dolj) are characterized by “a remarkably even distribution of entrepreneurial activity throughout the country”

(Cojanu, 2006). On the overall, Cojanu (2006) concludes that sources of economic development are distributed throughout the country in close correlation with local abilities to take better advantage of generic determinants of entrepreneurship (Cojanu, 2006).

Chelariu et al. (2008) analyse antecedents of entrepreneurship propensity at individual and organizational levels in Romania. The authors emphasise that centralization and formalization of the organization stimulate entrepreneurial propensity, especially in salespeople with a high need for autonomy.

Lafuente & Vaillan (2008) are aiming, in a challenging article, to identify whether the impact of role models over entrepreneurial activity in Romania is generationally driven, using a rare event logit model applied to a sample of 1449 Romanians. They found out that the impact of public policies that support entrepreneurship is much a “generational” effort, with different impacts depending on persons’ age. They consider the existence of a so called “institutional memory”, that older individuals inherited from their exposition to a framework based on central planning, and that has diluted the positive effect of role models over entrepreneurship. In opposition, younger individuals value more entrepreneurial models, an attitude which increases the positive effect of their propensity towards entrepreneurship.

Lafuente & Driga (2009 a) study entrepreneurship in Romania for the year 2008 using a sample of 626 Romanian individuals and reach a series of interesting conclusions: a) the presence of entrepreneurs in the individual’s life and entrepreneurial self-confidence are key determinants in the involvement in the creation of start-ups and b) social aspects of the external environment are also important drivers for engagement in entrepreneurial activity.

Lafuente & Driga (2009 b) study female entrepreneurship for the year 2008, concluding that, in spite of the fact that the number of male entrepreneurs is greater than that of females entrepreneurs, the potential entrepreneurship (i.e. persons involved in pre-entrepreneurial activities) is greater for women than for men, in the majority of regions of their study. The profile of Romanian women, owner of a newly created firm (no more than two years old) indicates an average age of 37 years old, with a work experience of 10 years and, interestingly, with an academic background in business and management (73% of the sample).

Varblane & Mets (2010) conduct a study on the current situation of entrepreneurship education in 774 higher education institutions of 22 European transition economy countries. They conclude, regarding Romania and Moldova, that the supply of entrepreneurship teaching is low, compared to the rest of the countries surveyed.

Gheorghiu, et al. (2010) concentrate their research on new firm creation in industries considered to be science-based or to intensively use research and development (R&D) in Romania. As a conclusion, the authors state that Romania appears to be a poor location for knowledge based entrepreneurship, with a low R&D spending as a percentage of GDP; additionally, based on a series of case studies, the authors emphasize that most of the firms studied rely on foreign

markets for the development of their innovative products, whereas the Romania market is used to generate high volume sales of less innovative products.

Lafuente & Rabetino (2011) aim at analysing the impact that certain human capital variables (education, previous work experience, employment motivations, the presence of entrepreneurial teams, the presence of family members in the firm) have over employment growth of small firms in Romania. Among their findings, we mention: a) management studies do not exert a differential impact on employment growth and b) higher employment growth is linked to firms created by a sole-entrepreneur and where the firm is managed by an outside manager.

On the overall, in our opinion, research of Romanian entrepreneurship is still emergent, especially due to the lack of substantial and inclusive studies about the development of entrepreneurship. The majority of the studies mentioned before investigate only limited aspects of this phenomenon, which gives an atomized understanding of the development of self-employment in Romania. Also, we have to emphasize the still limited amount of academic research done regarding entrepreneurship, conducted both by international researches and especially by Romanian researchers.

2. Entrepreneurship perception in Romania: where do we stand?

According to the 2011 Global Entrepreneurship Monitor, only 13% of Romanians are trying to open a business, as it can be observed from the graph below:

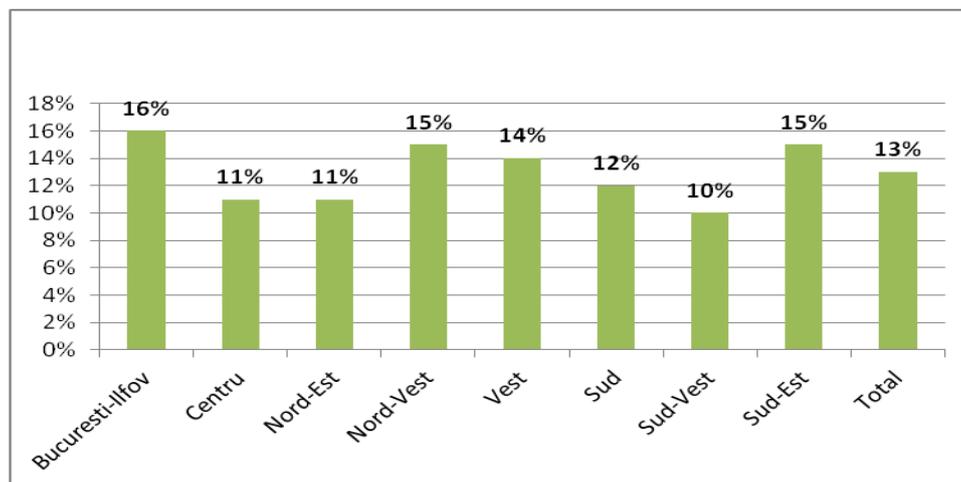


Figure 1 The proportion of Romanians involved in pre-entrepreneurial activities

Source: Global Entrepreneurship Monitor, 2011, <http://www.gemconsortium.org>

The socio-demographic profile of these persons indicates that they are mostly men, young person's between 25-34 years, high school and university graduates, full time employees and present entrepreneurs.

From the subsample of potential entrepreneurs analysed, based on the primary research undertaken, 90% of the respondents thought about opening a business. Compared to the average of 12% of persons that are involved in pre-entrepreneurial activities for the three regions of Bucuresti-Ilfov, Centre and North-East, we can observe that there is a high difference between intention (90%) and its materialization (12%).

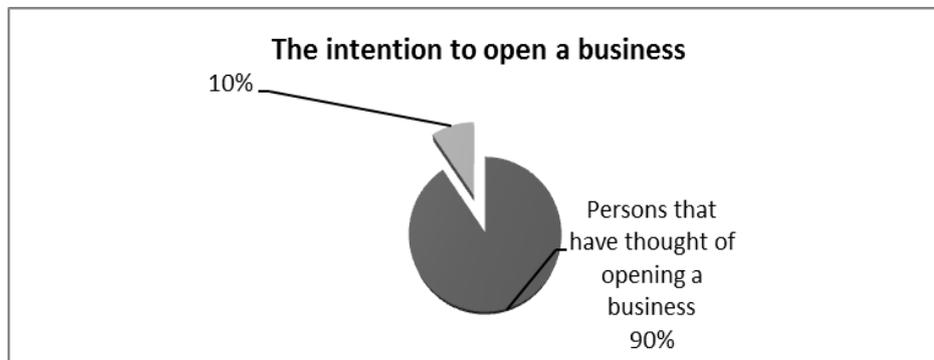


Figure 2 The intention to open a business

Source: The primary research conducted

Unfortunately, we do not have any item in the questionnaire used that could explain such a great difference between the intention of opening a business and the engagement in pre-entrepreneurial activities. We might only suspect, based on the answers to other items, that the perceived barriers towards entrepreneurship were effective and de-motivated potential entrepreneurs to create a new business. In other words, even if inner motivation exists, it is not enough for increasing self-occupancy; institutional support is, as it will be confirmed further in the paper, of significant importance.

Related to the motivating factors that would encourage a person to open a business, these are, according to our primary research and in this order of importance: financial security, profit, independence, financial prosperity, welfare, professional satisfaction, personal prestige, business development, local opportunity of the area, continuity and chances for innovation. As it can be observed, issues that have to do, on the overall, with earning more money, are the most important motivators for opening a business, together with independency. This is explainable due to the overall low level of salaries that characterizes the Romanian economy.

Regarding the perception of the profitability of the different economic sectors for opening a new business, the following industries were perceived as the most profitable: tourism (25.9%), trade based on sales and low prices (24.5%),

construction, infrastructure (23.0%), consultancy, European funds (22.8%), entertainment (22.8%), service, repairs (21.2%), medical services (20.8%), events organization (20.6%), training 20.4%. The less attractive industries were logistics (5.3%), debt recuperation (4.9%), leasing services (4.1%), publishing (3.5%) and company liquidations (3.3%).

If they were to open their own business, respondents would choose the following industries: services, tourism, agriculture, trade, industry, IT&C and, on the last place, research, as it is illustrated in the graphic below:

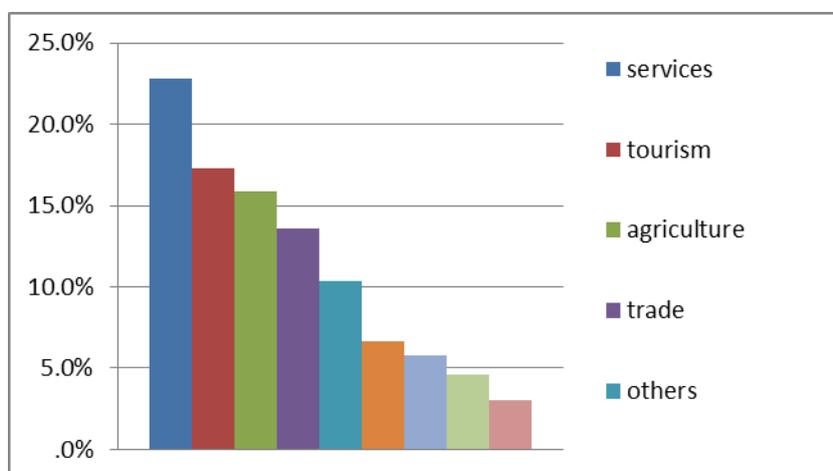


Figure 3 The sectors in which respondents would open a business

Source: The database obtained from the primary research conducted

Corroborating the choices about the perception of the most profitable economic sectors and the identification of those sectors in which respondents would really open their own business, we will find a high degree of similarity of answers. This is probably due to the fact that the main motivation of opening a business is mainly the financial gain associated to the most attractive industries, a thing also confirmed empirically in the inquiry about the motivating factors for becoming an entrepreneur.

As for the need of finance of start-ups, respondents would count on European funds, own funds, bank credits, credit from other persons and public funds. As it can be observed, the perception about the national governments' preoccupation and support of start-up-s is not positive, showing that governmental funds, even if they exist, are not perceived as a real start-up support, which might be due to many reasons, such as lack of transparency, bureaucracy or weak dissemination of the information. It is also true that European funds have also a national budget component and are managed by Romanian public authorities. The discrepancy in the quite different perception of European and public funds is probably due both to the respondents' lack of knowledge regarding these aspects but also to a generalized euro-optimism.

The main barriers that potential entrepreneurs perceive for opening a business are also related to finance availability, as well as with the overall socio-economic context in Romania, which is a variable of the external environment. These perceived barriers are represented in the graphic bellow:

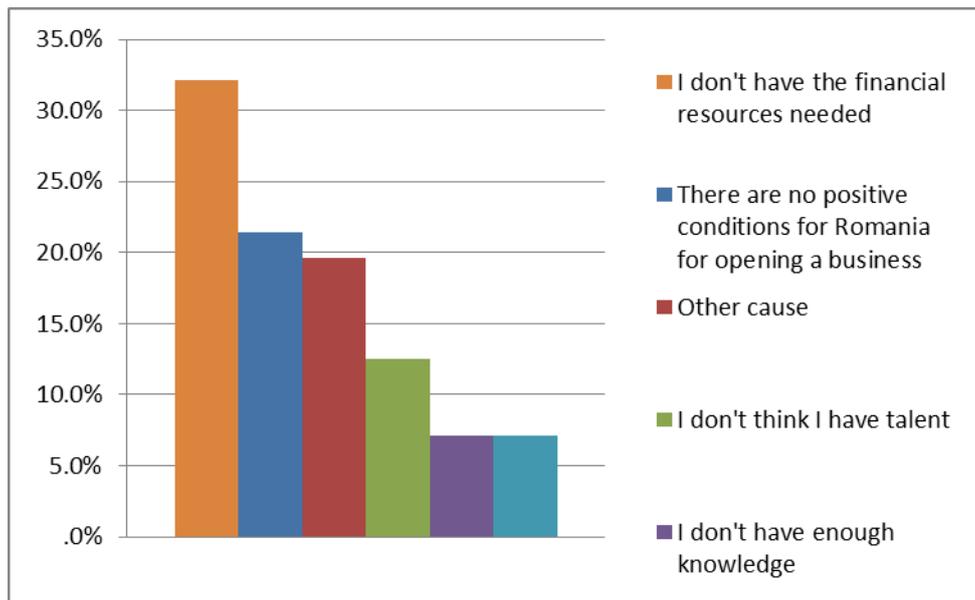


Figure 4 The main perceived barriers for becoming an entrepreneur

Source: The database obtained from the primary research conducted

Ranking variables of the external environment as the second barrier for becoming an entrepreneur confirms the findings of Lafuente and Driga (2009 a) that social aspects of the external environment are also important drivers for the engagement in entrepreneurial activity. It is also true that the sub-sample in discussion, of potential entrepreneurs, is formed of students, un-employed persons and retired people, whose earnings are generally low, as compared to other social and professional categories; their response could be, in consequence, biased by their personal financial situation, which limits its relevancy.

Interestingly, Romanians have, on the overall, a positive perception of their entrepreneurship potential, which, in our opinion, is a good fact because it will motivate the creation of start-ups. This also confirms the findings of Lafuente and Driga (2009 a) that entrepreneurial self-confidence is a major determinant in the creation of start-ups.

In what concerns the perceived factors of success of a business, the most important (on a scale from 1 to 5, where 5 is the most important), are money, motivation and education, as it is shown in the graphic 4.

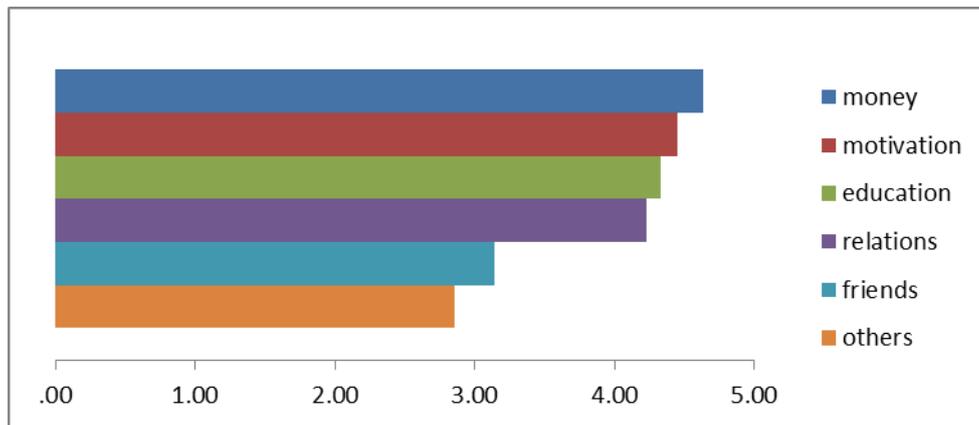


Figure 5 The perceived factors of success of a business

Source: The database obtained from the primary research conducted

According to this ranking, finance is perceived as the most important factor of success, which confirms previous results that indicate money as being also the most important barrier for opening a start-up. Also, Romanians show a high internal locus of control, placing motivation as the second important condition for success in a business. This, corroborated with the trust in education and the positive perception of their own entrepreneurship potential, emphasize a certain impetus of the potential entrepreneur, that explains the fact that 90% of the respondents have thought of opening a business. This type of attitude is constructive and more important, in our view, it can be interpreted as a proof of an on-going cultural transformation in the direction of more openness to self-employment.

Conclusions

The article represents a brief analysis of a series of items surveyed in a primary research undertaken in April 2012, on a statistically significant sample, in three regions of Romania, in the field of entrepreneurship. Despite its added value, brought by the primary research data of the three representative samples, the paper has its limitations. One limitation is that it does not consider the regional differences in the respondents' opinions. That line of research could reveal more particular patterns of entrepreneurship development, that could be corroborated with other variables, like the economic level of development of each region. In fact, another limitation is that the study was not applied at national level, but only in the three regions. Also, a comparison between the results obtained for the rest of the sub-samples (managers, employees and present entrepreneurs) would be relevant for a better understanding of the Romanian present day entrepreneurial dynamics.

Despite these limitations, the paper underlines some defining development patterns of entrepreneurship in Romania. The results of the survey show that

Romanian potential entrepreneurs are mostly motivated to open a business by financial security, profit, independence and financial prosperity. The business that the respondents would start will be in the field of services, tourism, agriculture, trade, industry, IT&C and, on the last place, research, probably due to the high profitability associated by the respondents to those fields of economic activity. For financing their start-ups, Romanian potential entrepreneurs would count on European funds, own funds, bank credit, credit from other persons and public funds. The main barriers that the respondents have identified for opening a business are related to finance availability, as well as with the overall social and economic context in Romania, which indicates an important need of governmental assistance for the creation of start-ups. On the overall, Romanians manifest an internal locus of control, considering that motivation is the second important condition for success in a business. Also, they manifest trust in business, management and entrepreneurial education and a positive perception of their own entrepreneurship potential. All these elements suggest, in our opinion, a cultural and social background that is positive for entrepreneurship development. Despite this, additional institutional and financial support is still needed, according to the perceptions of the respondents.

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