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IMPACT FACTORS FOR THE DEVELOPMENT OF YOUNG ENTREPRENEURS IN ROMANIA

Empirical Study

Keywords

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JEL Classification

L21, L25, L26

Abstract

A distinctive feature of developed economies is the vital role of entrepreneurship as a central pillar of economic growth. In the context of growing number of new businesses, this article aims to highlight the key factors that affect the entrepreneurship in Romania. The authors reviewed several scientific articles and business reports and also primary data collected via direct interaction with young entrepreneurs and students that aspire to become entrepreneurs in Romania. Issues like access to financing, taxes and other administrative barriers and also entrepreneurial skills and education are discussed. Moreover, entrepreneurs' opinions on measures to improve the entrepreneurial education are listed.

INTRODUCTION

Entrepreneurship started to receive attention more intensely in the context of the economic crisis, and the entrepreneurs have become "heroes" able to provide boost to the economies. In the context of alarming rates of unemployment that persist in many countries of the world, entrepreneurship is a viable solution for the economic problems.

According to the European Commission (2003), the number of company owners in Organization for Economic Co-operation and Development (OECD) countries increased from 29 million to 45 million between 1972 and 1998 (Audretsch, 2002). Furthermore, services and activities based on knowledge became Europe's competitive edge, leading therefore to the emergence of a new wave of innovative Small and medium-sized enterprises (SMEs) that have survived the crisis and prospered while corporations were starting to restrict their activities and to lay off employees.

Considering the EU Commission statistics, SMEs represent 99% of all active companies in Europe. In the past five years, SMEs are responsible for around 85% of new jobs and provide 66% of available working places in the private sector in the EU (EU Commission, 2016).

The concept of "entrepreneurship" is not uniformly defined in the specialized literature. The role of entrepreneurs has been the subject of multiple analyses since the eighteenth century. Moreover, it is very difficult to generalize the conclusions of studies from specific regions.

In many studies, the entrepreneurship activity is usually studied in the context of SMEs, but entrepreneurship skills and aptitudes can be found in many types of organizations. Even if the size of the company or organization does not define the entrepreneur, the term refers to individuals who do business and actively invest. Along this line of thought, Klapper et al. (2010) argue that entrepreneurship is generally understood as a process of creating new wealth and define the entrepreneur as the initiator of an economic activity in an incorporated enterprise. This study will use the definition that includes both formal as well as informal economic activities (including self-employment) for the purposes of creating wealth.

The aim of this article is to conduct a comprehensive analysis of the entrepreneurial ecosystem in order to define some of the factors that have a positive impact, thus enabling the design of effective policies to develop entrepreneurship in Romania.

RESEARCH METHODOLOGY

The first step in the development of the article consisted of a full analysis of the entrepreneurial

ecosystem using data provided by Global Entrepreneurship Monitor. This analysis provides an overview of the current situation and highlights areas that need improvement.

Secondly, the authors proceeded to identify factors that have the potential to influence the entrepreneurial ecosystem in Romania. These factors have been identified through a careful review of the business literature and have been validated through discussions and interviews with entrepreneurs and investors from the country.

As part of the current research, the authors reviewed the primary data collected by Yes Academy (2016) during 2015 and 2016. Primary data consists in interviews and surveys with young entrepreneurs (30 respondents) and also students that aspire to become entrepreneurs (105 respondents). The interviews and surveys are part of a larger body of research, and for the purpose of this article only relevant information will be mentioned in the paragraphs below. The research does not claim to elicit the opinion of entrepreneurs and it was not intended to be statistically representative, but rather to bring more clarity to the discussed issue.

Finally, each of the identified factors were analyzed in order to establish the current status and to provide recommendations for improvement.

FACTORS THAT INFLUENCE THE DEVELOPMENT OF ENTREPRENEURSHIP

There is a vast body of literature that investigates the factors that influence the entrepreneurial activities worldwide and also the constraints to entrepreneurial success.

For the purpose of this article, only some of the factors that have the potential to influence the situation of entrepreneurship will be discussed. Therefore the focus will be on: access to financing (Akcees, 2013; Ernst& Young, 2014; Ernst & Young, 2015; Levie and Autio, 2008; Yes Academy, 2016) taxes and other administrative barriers (Akcees, 2013; Doing Business, 2015, Ernst& Young, 2014; Ernst & Young, 2015; Klapper et. al., 2009; Yes Academy, 2016) and entrepreneurial skills and education (Akcees, 2013; Coron, 2008; Ernst& Young, 2014; Ernst & Young, 2015; Souitaris et. al., 2007; Yes Academy, 2016). These factors will be discussed in the following paragraphs.

1.1 Access to funding

Improving access to finance is one area of action that has great impact in business development. Studies (Torrance, 2013; Yes Academy, 2016) confirm the hypothesis that the main obstacle for

those who want to start their own business is represented by scarce financial resources.

The Romanian Entrepreneurship Barometer 2013, an annual barometer conducted by Ernst & Young, reported for 2014 that 88% of the Romanian entrepreneurs consider that the access to funding is difficult or very difficult. Moreover, the same entrepreneurs say that this has deteriorated in 2013 compared to 2012 (Ernst & Young, 2014). The next issue of the Entrepreneurship Barometer done by Ernst & Young (2015), in 2014, in Romania, reported that 50% of entrepreneurs believed that access to finance has deteriorated.

The Ernst & Young study also presents the financing instruments with the greatest impact in supporting entrepreneurship in Romania (Ernst & Young, 2014; Ernst & Young, 2015). The results are presented in figure one. It appears that in period between 2013 and 2015 in Romania bank loans and EU funding are the most important financing options used by entrepreneurs. Moreover, it is interesting to note that there is less involvement of the Business angels in 2015 compared to previous years.

Considering that 80% of the respondents in the research conducted in Yes Academy (2016) are entrepreneurs that have started their company using EU grants, these entrepreneurs reported that on top of the fierce competition for obtaining the EU founding they also had a problem with the additional financing streams that were necessary for the successful implementation of their businesses.

The research conducted in Yes Academy (2016) reveals that the Romanian entrepreneurs consider that tax facilities for investments in SMEs and reduced taxation for capital gains plus an easier loan guarantees scheme would improve access to financing for the entrepreneurial companies. The authors also support the opinion that whenever considering measures to support the financing of companies, the authorities should keep in mind and correlated the stage of development of the region in which the company is currently located and also the stage of the company overall, meaning if the enterprise is at the beginning, in rapid growth or in the expansion phase.

1.2 Taxes and Other Administrative Barriers

In Romania, in general, the entrepreneurs regard the level of taxation as problematic. Moreover, 79% of entrepreneurs that are older than 40 years and 61% of entrepreneurs that are younger than 40 years, consider that taxation and regulations have worsened in the last year in Romania (Ernst & Young, 2015).

Also, when asked about the most important obstacle to entrepreneurs in starting and developing a business in Romania, 49% of the respondents

consider that fiscal uncertainty, the taxation level and bureaucracy are the main problems, more with six percentage point compared to the previous year (Ernst & Young, 2015).

The conclusions of the Doing Business 2015 study (Doing Business, 2015) is that Romania improved the ease of paying taxes the most during 2013-2014, with the development of an electronic system for filing and paying corporate income tax, value added tax and mandatory labor contributions. Moreover, the legal environment for SMEs has improved compared to previous years, however Romania is on the 48 place out of 189 countries, suggesting that further improvements could be achieved.

From the sample of young entrepreneurs we have consulted, more than half of the young entrepreneurs that have started a business via an EU funding supporting scheme of entrepreneurship declared that the incorporation process of their company is rather lengthy and does require a lot of support from more experienced entrepreneurs or a mentor (Yes Academy, 2016).

1.3 Entrepreneurial skills and education

It is generally accepted that entrepreneurs share common traits that help them start their own businesses and increase their chances of success. The literature in the field agrees that there is not just one recipe for a successful entrepreneur. There are though characteristics and skills associated with entrepreneurial success like: leadership skills, communication skills, vision, tolerance to risk, average job skills, a larger degree of responsibility or independence, desire for continuous improvement of performance, creativity, and the availability for lifelong learning.

An analysis of the role of entrepreneurial competences conducted in Brasov, Romania in 2012, on a sample of 120 representatives of SME (Stan, 2012), concluded that for the analyzed region, the entrepreneurial competences are still underdeveloped. The competences that do exist, are mainly in the area of finance, accessing of funding, budgeting, planning and organizing.

Entrepreneurial education is different from traditional academic education and it involves combining high aspirations and unique attitudes. Some of the necessary knowledge can only be developed as a result of exposure to entrepreneurial success stories. But, just as importantly, young people need to understand both the sweet and sour sides of entrepreneurship.

Regarding entrepreneurial education it could be noted that entrepreneurs might need formal education, but more importantly need some knowledge of business management, marketing, sales, human resources, communication and PR, finance and also exposure to entrepreneurial

models. Individuals with the necessary skills and abilities have a greater chance to become successful entrepreneurs.

Entrepreneurial education, therefore, is an important stimulus of entrepreneurship. According to the data collected by Yes Academy in 2015 and 2016 (Yes Academy, 2016), more than 90% of the respondents have participated in at least one course in entrepreneurship. However, it should be noted at this point that only half of the respondents have an economic background. In addition, please be advised that the sample of respondents was selected especially by their expressed interest in entrepreneurship and their intention of creating a business.

Most of the respondents agree that they did not receive support for their entrepreneurial approaches from their educational institutions. Moreover, they state that they do not feel properly prepared despite their access to formal entrepreneurial education. The results are consistent for both entrepreneurs and non-entrepreneurs (Yes Academy, 2016).

In 2015, 58% of the young people surveyed stated that the quality of entrepreneurial education was improved compared to the previous year, less than the 62% of the respondents to the survey in 2014 that had a similar opinion (Ernst & Young, 2015). On the other side of the scale, in 2015 14% of the respondents consider that the quality of entrepreneurial education has deteriorated, compared to only 6% in 2014 (Ernst & Young, 2015).

Specific programs for entrepreneurial education (56% of answers) represent a way to improve the perception of entrepreneurship as a career choice among students (Valerio et. al., 2014). Moreover, targeted educational programs in the area of entrepreneurship and the government programs that support entrepreneurship, such as "SRL-D Program" which aimed to encourage the initiation of micro business via tax reductions were mentioned as the main causes for the improvement of the perception of entrepreneurship as a career option by students (Ernst & Young, 2015). It is interesting to note that success stories of entrepreneurship and mentoring programs were not perceived as equally important in the overall improvement of the perception of students with regard to entrepreneurship.

Complementary to governmental aid, entrepreneurs are helping each other, offering mentoring to those that are at an early stage on the entrepreneurship road (Nian et. Al., 2014). In 2015, the percentage of those who offer mentorship has dropped to 68% from the 80% in 2014. This declining percentage can be explained by the increase in the share of firms with turnover below 1 million EUR in the total number of respondents to the questionnaire (Ernst & Young, 2015).

A study investigating the students' perception on entrepreneurship (Vechiu and Ciorășteanu, 2014) revealed that the most important factor that influences the intention of becoming an entrepreneur are the specific programs in universities, followed by government support. Other factors are success stories of entrepreneurs, mentoring programs.

DISCUSSION: IMPROVING FORMAL ENTREPRENEURIAL EDUCATION

Whether they are born or formed, individual characteristics of a person influence the ability to begin and to move on their own. Under these circumstances, the educational system should focus on creating leaders who are responsible and proactive, who appreciate independence and have a medium tolerance regarding risk. Through the development of skills and entrepreneurial aptitudes among young people, we can also contribute to the long term growth in the number of entrepreneurs in society.

One of the first initiatives of teaching entrepreneurship was in 1947 at Harvard University. The teaching of entrepreneurship in the curriculum was standardized as an element in the 80s and then developed rapidly (Katz, 2003). Since then, universities have been playing a major role in the supply of the entrepreneurial education world-wide.

According to the Kauffman Foundation (Torrance, 2013), an US foundation that supports entrepreneurship, four ingredients are needed by a university if it intends to support entrepreneurship. The first ingredient is that all university faculties should be involved from the beginning in the process, as this is a decisive factor in cultural change within universities, to promote entrepreneurship. The second ingredient is the departments' freedom to define entrepreneurship in accordance with their own needs and application. Third, the support of university leaders, expressed as financial support, is imperative. And lastly, the visibility of entrepreneurship activities by organizing events about entrepreneurship, involving the whole University is also required.

Of course, the entrepreneurship curriculum is relevant. A survey that compared the entrepreneurs in UK and France (Coron, 2008) concluded that a higher percentage of the student in the UK that follow a formal education in entrepreneurship choose to become entrepreneurs compared to the students that follow a formal education in entrepreneurship in France. These results suggest that a highly competitive formal entrepreneurial education such as the one in French is not correlated to a high number of actual entrepreneurs that follow formal entrepreneurial programs.

In Romania, most of the higher education is provided by public schools. It is important to note that in Romania the 2013 budget allocated for education reaches the level of 3% of GDP in 2014 (Eurostat, 2016a). Moreover, according to the Eurostat data (Eurostat, 2016a), the Romanian budget for education in 2014 is far less than ones in the United Kingdom (5.2%), France (5.5%), or even other former communist countries such as Poland (5.3%), Hungary (5.2%), Czech Republic (5.2%) and even Bulgaria (4.1%).

As part of YES Academy (2016) current research, we always ask entrepreneurs to suggest solutions to improve entrepreneurship education. From the 30 interviews with entrepreneurs from several industries such as services, IT, marketing, crafts and agriculture, we present here the list of suggestion and measures that the entrepreneurs talked about.

First, entrepreneurs suggested that there should be business courses and financial education courses in secondary education (high schools) or even in primary education. The reasoning behind this is that it is important to support young people in choosing a road in entrepreneurship. Creation of programs applied for the presentation and teaching of entrepreneurship in schools from the smallest age could transform the entrepreneurial culture in Romania.

A second important suggestion that was mentioned by several entrepreneurs referred to the internships of high school students in companies in their region and also a coherent program to revitalize vocational schools. Vocational education and training is, according to the Eurostat definition, the training in skills and teaching of knowledge related to a specific trade, occupation or vocation in which the student or employee wishes to participate (Eurostat, 2016b). Vocational education is either part of the educational institution, or may be part of initial training during employment (e.g. as an apprentice) or as a combination of formal education and on the job training.

The proposal of the entrepreneurs is also in line with the EU policies (EU Commission, 2012). In 2012, the European Commission presented an initiative that aims to encourage EU Member States to develop policies as to ensure that young people develop the skills and competences needed by the labor market. The policy is meant to address the issues of increased competition from workers outside of the EU and increased youth unemployment within the EU, in the context of a sluggish economic performance. The measures proposed by the document to combat youth unemployment refer to the development of world-class vocational education and training to raise the quality of vocational skills, the promotion of work-based learning including quality traineeships, apprenticeships and dual learning models to help

the transition from learning to work, and the promotion of partnerships between public and private institutions (to ensure appropriate curricula and skills provision);

A third suggestion that was mentioned by the surveyed entrepreneurs refers to the improvement in the teaching methods that should be more focused on the solving of practical problems. Education in general should support the gaining of skills and abilities to facilitate solving of problems. Of course, these types of measure are long term changes that need to be implemented through coherent state policies in the area of education.

A fourth request of the survey respondents referred to the involvement of professionals (e.g. business owners, managers) in the organization and delivery of the formal entrepreneurship education. This would mean that universities would need to closely collaborate with the private system (e.g. 50% of teachers to be external collaborators from private sector) in order to access the pool of informal trainers.

At the moment there are very few cases of programs in the formal education provided by universities that involve the participation of people with relevant practical experience in entrepreneurship. This is mainly because the current law of education does not allow for the hiring of professionals without a PhD as part time or full time teachers in universities. Therefore, all participations of professionals in the formal education are based on individually drafted partnerships between a specific university and companies.

The topic of the involvement of practitioners in academic entrepreneurial education is supported also by literature studies. A research on entrepreneurship programs, the entrepreneurial aptitudes, and intention of science and engineering students to become entrepreneurs, show that the programs raise the overall entrepreneurial intention and that inspiration is the programs' most influential benefit (Souitaris et. al., 2007). The practical implication for those developing entrepreneurship programs refers to the fact that even though knowledge and resources can increase the likelihood of success of young entrepreneurs, it is the inspiration creates a stronger intention and increases the chances that students attempt an entrepreneurial career. Most important, the inspiration was driven by the views of professors and external practitioners.

Entrepreneurship education could have the effects of convincing those not suited to entrepreneurship that they should become entrepreneurs (Von Graevenitz et. al., 2010). Alternatively such an education actually would inform students and allows them to discover their specific abilities. In that were the case, a decline in number of students that intend to become entrepreneur could be

socially valuable, since it may mean that these students would find better, more appropriate jobs for their desires in the labor market.

Whenever the students were inquired about the things that they considered to help them develop entrepreneurship skills and knowledge, the responses were simulations type games on creation and management of a business (18%), internships in entrepreneurial companies (17%) and entrepreneurship training (17%) (Ernst & Young, 2015).

CONCLUSIONS

This article focused on four factors that have the potential to influence the situation of entrepreneurship: entrepreneurial skills and education, access to financing and taxes and other administrative barriers. The entrepreneurial education and measures to improve the entrepreneurial education were discussed.

Since people who have the appropriate skills and competencies have a greater chance to start their own businesses, entrepreneurial education should be a priority of public policy. The low level of knowledge despite participation in entrepreneurial education courses is a sign of low quality education. The situation may improve the curriculum by adapting to market conditions and switching to experiential learning methods, with an emphasis on the practical side. In addition, students must have access to experienced entrepreneurs instead of teachers who use today's theoretical methods of approach to entrepreneurship.

The government must encourage lifelong learning for entrepreneurs. Many of the powers and skills that entrepreneurs need are not learned in the classroom. Therefore, it is essential to build opportunities for learning from those with a similar journey, by programs of mentoring and dedicated entrepreneur clubs.

Respondents to survey consider that it is best to learn from other entrepreneurs. Even if the business ideas are different, it can be particularly useful for any contractor to be able to benefit from different experiences of other entrepreneurs. Moreover, mentoring also represents a valuable method of learning for the new generation of entrepreneurs.

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ANNEXES

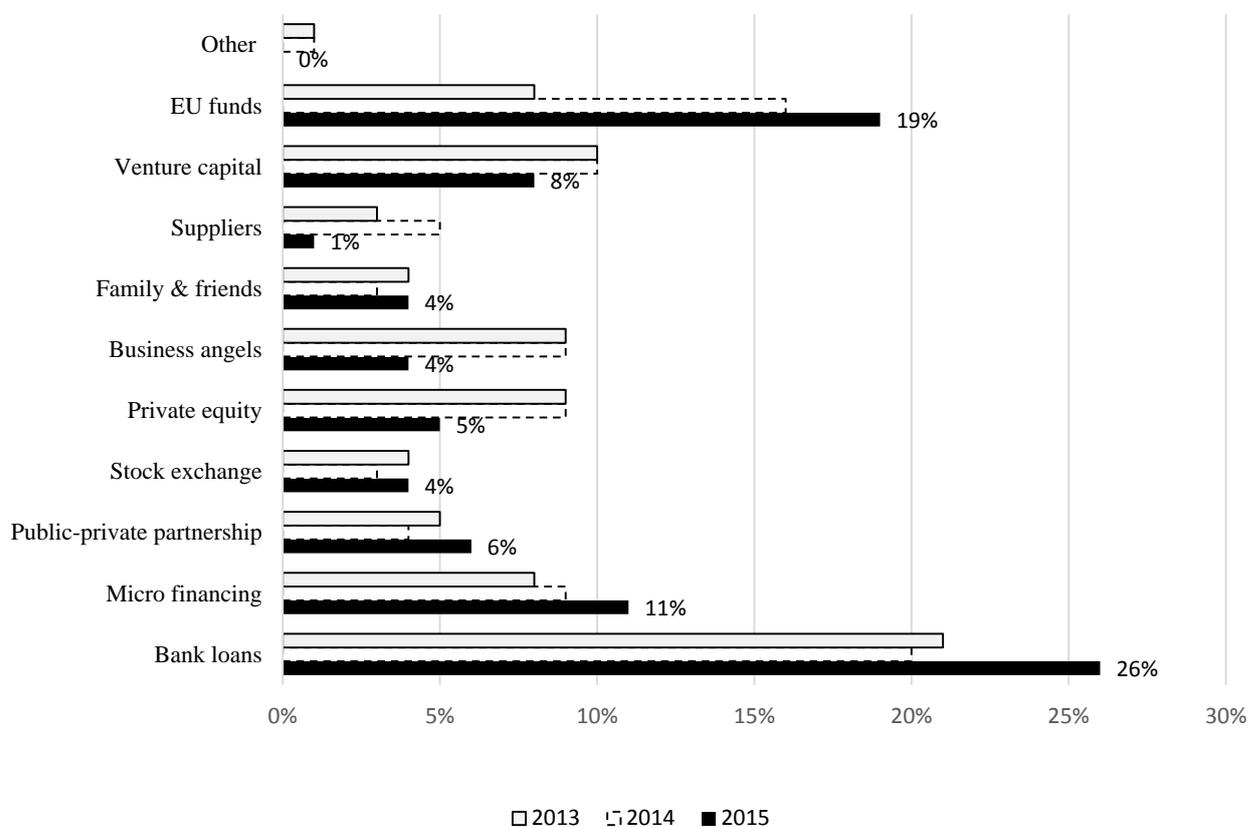


Figure 1. Financial instruments with impact on entrepreneurs

Source: data compiled from Ernst & Young (2014) and Ernst & Young (2015)