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## Entrepreneurial Developments and Challenges in the Sud Muntenia Region of Romania

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# Entrepreneurial Developments and Challenges in the Sud Muntenia Region of Romania<sup>1</sup>

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## Abstract

Entrepreneurship is crucial for the economic development of a region. Using statistical and survey data, the authors draw profiles of the companies and entrepreneurs of the Sud Muntenia region of Romania, pointing both towards the presence of an overall development process, and also to imbalances and difficulties, evolutionary discrepancies and lack of adequate use of territorial resources. Some policy recommendations are proposed to address the future challenges for the balanced development of the Sud Muntenia region of Romania.

**Keywords:** entrepreneurship, territorial development, regional business demography, sectoral structure, regional policy

**JEL Classification:** O18, R11, R12, R30

## Introduction

Entrepreneurship is no longer an abstract concept. There is increasingly higher demand and interest for placing “entrepreneurship” (creation/establishment of new businesses) at the heart of development and rejuvenation of the less developed areas of Europe. Moreover, increasing awareness over the last decade of the impact of the newly established companies and of the SMEs upon economic development determined many governing and administrative bodies, irrespective of political doctrine and decision level, to elaborate policies that favor and provide incentives for establishment of new companies. In the following, we shall sketch the entrepreneurial profile of the Sud Muntenia region of Romania and provide some useful insights regarding the imbalances and difficulties, evolutionary discrepancies and lack of adequate use of territorial resources.

### 1. Brief considerations regarding entrepreneurship

Literature on regional development increasingly stresses the role of entrepreneurship and entrepreneurial culture in explaining the economic performance of regions. Thus, in an analysis of USA biotechnology Audretsch (2001) asserts that the presence of

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entrepreneurial culture is a key factor in promoting start-up companies and in development of biotechnology companies. Also, frequent use is made in literature of theoretical concepts linked to entrepreneurship: "industrial districts" (Marshall 1920; Markusen 1996; Ottati 1994; Rabellotti 1998; Storper 1992), "regional innovative systems" (Cooke *et al.*, 1997; Malecki 1997), "regional learning process" (Florida 1995; Morgan 1997), "regional innovative capabilities" (Lawson and Lorenz 1999), "enterprise culture" (Amin and Tomaney 1991), "entrepreneurial capability" (Kangasharju 2000), "human entrepreneurial capital" and "innovational regional culture" (Georgellis and Wall 2000) and (Thomas 2000).

It is also shown that given the local social circumstances entrepreneurship plays a key role in generating and assimilating innovation and in its transformation into sustainable economic development. In other words, entrepreneurial attitude is considered an important element of a regional culture that facilitates the success of certain regional groups and of regional economies, in general. Despite all these, the empirical investigation of the link between entrepreneurial culture and entrepreneurship as key driver of economic development may still not be well developed (Wennekers and Thurik 1999).

Generally, the measurement/assessment of entrepreneurial behavior (attitude) is difficult, especially at regional level, since reliable statistical data in this area are hard to obtain. The lack of empirical studies in this field also limits the possibility to elaborate programs and policies tailored for the needs of entrepreneurial activity. As a response to such lack of data, an initiative towards assessment and measurement of entrepreneurial activity and behavior in as many countries as possible was taken by the Global Entrepreneurship Monitor (GEM Report, 2002).

Although literature on economic development, in general and, especially, on regional economic growth emphasizes the role of entrepreneurial culture, still there is no generally accepted methodology in the field, especially in what regards the values of entrepreneurial behavior. This is often compared to a black box that was never empirically investigated.

Also, in what regards the specific topic of female entrepreneurship, one may note the first serious approach of the issue „*Entrepreneurship – A new female frontier*” (Schwartz, 1976), but also the little further development of research in this area (Brush, 1997, 2006, Brush *et al.*, 2004, Casson *et al.*, 2006, Bruni *et al.*, 2008, Parker, 2009). Far from building adequate theories, this entrepreneurship area is rather concerned with the “business woman” stereotype, built around „less” as compared to men – less capable, less skilled, less trained, less risk-taker, less fast, and less capital endowed or less able to get capital, etc., and less (again!) to encourage really the true female entrepreneurship. Moreover, in the peculiar Romanian context, the support to female entrepreneurial potential is highly biased towards less importance as against the priorities and requirements of the difficult economic context, and even towards frivolity.

## **2. The Sud Muntenia region of Romania – Labor force indicators relevant for entrepreneurship**

The main indicators regarding the *labor force participation of population*, by *gender*, in the Sud Muntenia region reveal a decline over the interval 2005-2009 in the share of

females in total active and employed population, and also an increase in their share (especially towards the end of interval) in total unemployment (Table 1). By *residence area*, one may note oscillations in the shares of urban and rural active and employed population, as well as the increasing share of rural unemployment. All these are also supported by the active and employed population *dynamics*, which generally revealed net downward trends over the analyzed interval, while unemployment recorded an upsurge in 2009 after two years of decline.

**Table 1**  
*Evolutions of the main indicators regarding the labor force participation of population in Sud Muntenia region - % in national total and yearly dynamics*

	2005	2006	2007	2008	2009	2006/2005	2007/2006	2008/2007	2009/2008
<b>Sud Muntenia region</b>									
<b>Active population</b>									
<b>Total</b>	100	100	100	100	100	101.93	100.88	99.56	98.68
By gender									
Male	56.5	56.6	56.6	56.9	57.2	102.05	100.89	100.11	99.23
Female	43.5	43.4	43.4	43.1	42.8	101.77	100.87	98.85	97.96
By residence areas									
Urban	41.3	41.9	41.0	40.5	41.8	103.42	98.65	98.32	101.86
Rural	58.7	58.1	59.0	59.5	58.2	100.88	102.50	100.42	96.52
<b>Employed population</b>									
<b>Total</b>	100	100	100	100	100	101.63	102.16	101.16	97.31
By gender									
Male	56.4	55.9	56.1	56.8	57.2	100.88	102.49	102.31	97.98
Female	43.6	44.1	43.9	43.2	42.8	102.59	101.74	99.69	96.42
By residence areas									
Urban	39.7	40.6	39.7	39.8	41.1	103.74	100.00	101.37	100.51
Rural	60.3	59.4	60.3	60.2	58.9	151.96	151.80	153.34	143.99
<b>ILO<sup>1)</sup> unemployment</b>									
<b>Total</b>	100	100	100	100	100	104.93	88.59	81.82	117.59
By gender									
Male	57.7	62.4	61.4	58.3	57.5	113.41	87.10	77.78	115.87
Female	42.3	37.6	38.6	41.7	42.5	93.33	91.07	88.24	120.00
By residence areas									
Urban	57.0	55.0	55.3	50.0	49.6	101.23	89.02	73.97	116.67
Rural	43.0	45.0	44.7	50.0	50.4	109.84	88.06	91.53	118.52

**Note:** Since 2002, data are not compared with previous years series, due to revision of definitions.

<sup>1)</sup>ILO = International Labor Office.

<sup>2)</sup>Computed for labor-aged population (15-64 years).

**Source:** Authors' computations, on the basis of Cercetarea statistica asupra forței de muncă în gospodării (AMIGO, NIS, Bucharest).

The *age and gender structure of active population* in the Sud Muntenia region did not experience significant changes over the analyzed interval, the male active population predominating at all the age groups, except for the age group over 65 years (in certain years). One may note, however, the increase in the shares of active population aged 35-44, but also over 65 years. As compared to the national level, the share of male active population is higher in the Sud Muntenia region, especially in the case of age groups 15-24 and over 65 years (with clues to poverty, the young men being forced to drop out

school and hire earlier, while the elders, especially in the rural areas, being forced to work long after the retirement age).

In what regards the *age and residence area structure of active and employed population*, one may note in the Sud Muntenia region the higher shares as compared to the national average of the *rural active population*, especially in the case of very young (15-24 years) and oldest age groups. Practically, over 90% of the active population aged over 65 years is located in the rural area, which supports the previous assertions.

The *share of employed population* of Sud Muntenia region in the national total revealed a downward trend over the interval 2005-2009, with a very slight increase in 2009; the same is also true for the share of female employed. By main sectors of the economy, higher shares than the national average were recorded in *agriculture, forestry and fishing* (17.6% in 2009 and a relatively constant trend), in mining and quarrying industry (19.8% in 2009, with a significant downward trend over the interval 2005-2009), in manufacturing industry (14.5% in 2009, with a significant decline in 2008 and 2009) and in public administration and defense, social public welfare (14.7% in 2009, with significant ascending trend over the analyzed interval).

The *sectors* for which the Sud Muntenia region recorded shares significantly lower in the total employed population were production and delivery of electrical and thermal power, natural gas, hot eater and air conditioning (10.5% in 2009, and in the case of female employed population only 8,4%, which means a significant decline as compared to the previous year), constructions (11.2% in 2009 and 10.1% in the case of female employed population, also declining as compared to the previous year), hotels and restaurants (9.2% in 2009, with a very significant decline as comperd to the previous year), information and telecommunications (only 4.2% in 2009), financial intermediations and insurances (only 7.1% in 2009), professional, scientific and technical activities (10.3% in 2009) and other service activities (8.2% in 2009, but increasing as compared to the previous year).

One may notice that some services sectors recorded towards the end of the analyzed interval increases in employed population in the Sud Muntenia region, both overall and for females (real estate transactions, public administration, health and social welfare, show business, creative and cultural activities, other service activities), while the industrial sectors recorded declines, and such things signal possible restructuring, be it crisis-induced or not.

Finally, the *share of labor resources* in the Sud Muntenia region in total national labor resources diminished slightly over the interval 2005-2009 in the case of both genders, but with slight increase in the case of female labor resources.

### **3. Entrepreneurship profiles in the Sud Muntenia region**

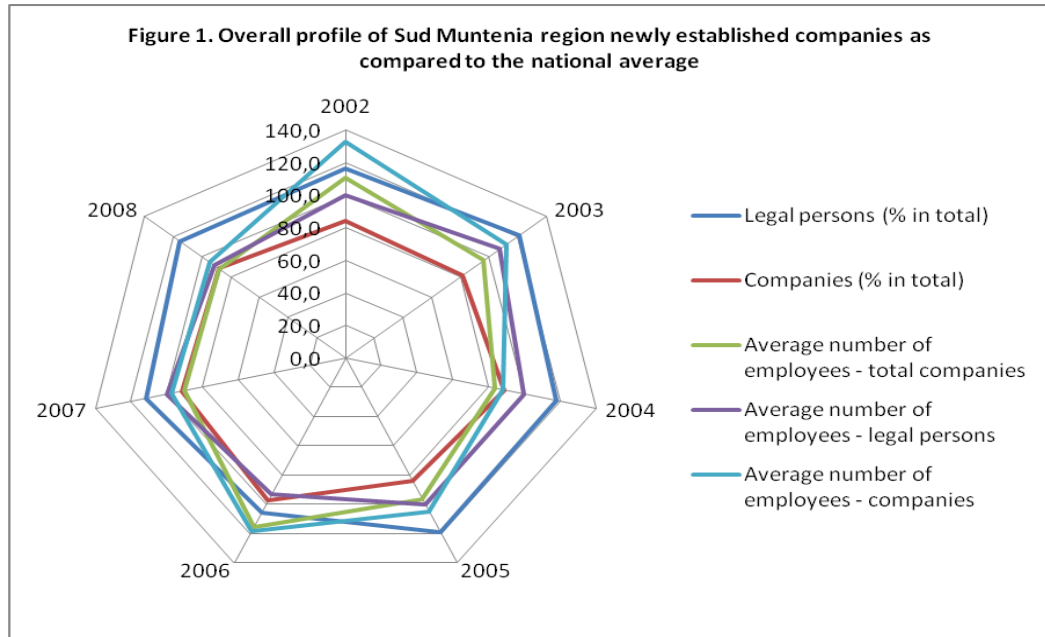
The Centre for Entrepreneurship&Business Research (CEBR) elaborated in 2006 a first report on Romania that presented entrepreneurship and identified the socio-demographic and economic factors that drive entrepreneurial behavior, also revealing the motivations of the persons engaged in entrepreneurial activities. The results of this report showed the following:

- The women were strongly engaged in entrepreneurial activities previous to business start up (9.58%), while the men had a larger share in starting businesses in recent period (16.75%).

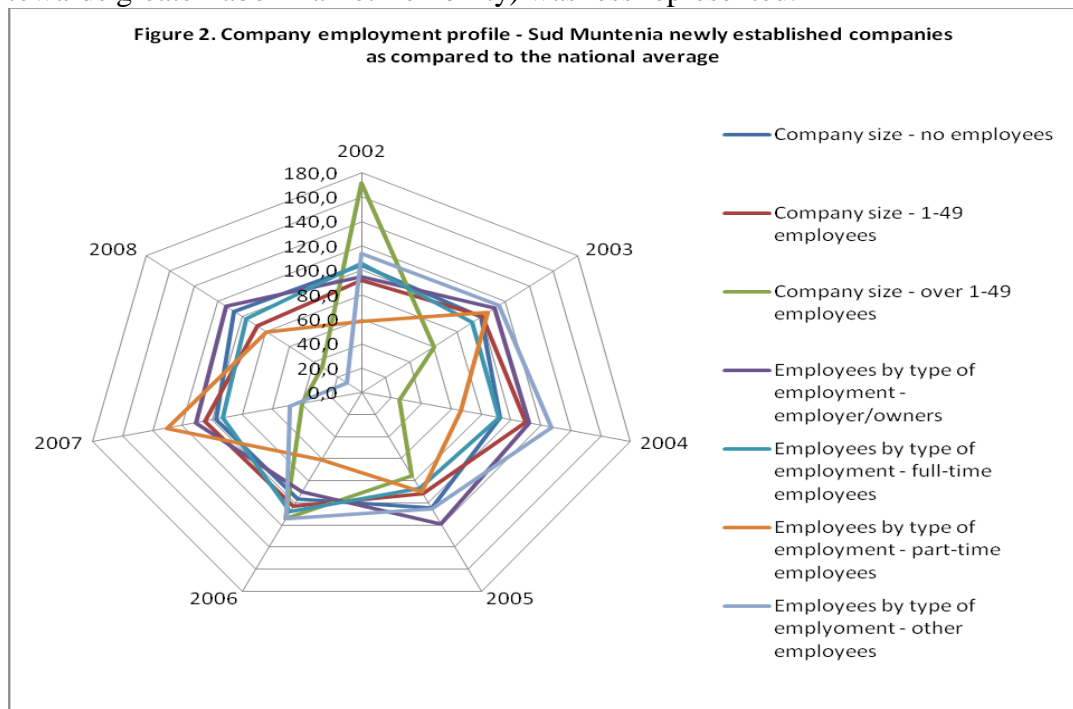
- The average age of the persons engaged in entrepreneurial activities ranged between 33 and 35 years. The persons aged 36-50 years were engaged more in entrepreneurial activities previous to business start up (9.40%).
- In the case of the most recent business persons, the highest share was that of persons aged 26-40 years (18.4%).
- Presence in the entrepreneur's family of one or more entrepreneurs is important for increasing the entrepreneurial activity. 38.6% of the persons engaged in activities previous to business start up had an entrepreneur as family member, most often such person being the father (22.81%). The same is true for the most recent entrepreneurs, 20.69% of them also declaring as having a family member as entrepreneur (also, the father is the most obvious example – 15.09% of cases).
- As regards the motivations to become entrepreneur, they were diverse, entrepreneurship being viewed as an occasion to benefit from the business opportunities and to improve one's living standard.
- In the same line of arguments, the respondents indicated also the social aspects as significant drivers that motivated their decision to engage in entrepreneurial activity.

Unfortunately, no survey on entrepreneurship and its motivations in the Sud Muntenia region was available, but in order to characterize the features of the entrepreneurial activity in this region we used the results of a recent statistical survey of NIS concerning the newly established companies and entrepreneurship profiles in Romania and its regions. Although such a survey reveals no information on the motivations of entrepreneurs, it is still useful to draw up sketchy profiles of the entrepreneurial activities and entrepreneurship in the Sud Muntenia region. To such a purpose, with the help of the available statistical information, several such profiles were created for the interval 2002-2008 by comparing the level of variables in the Sud Muntenia region with their national counterparts, as follows:

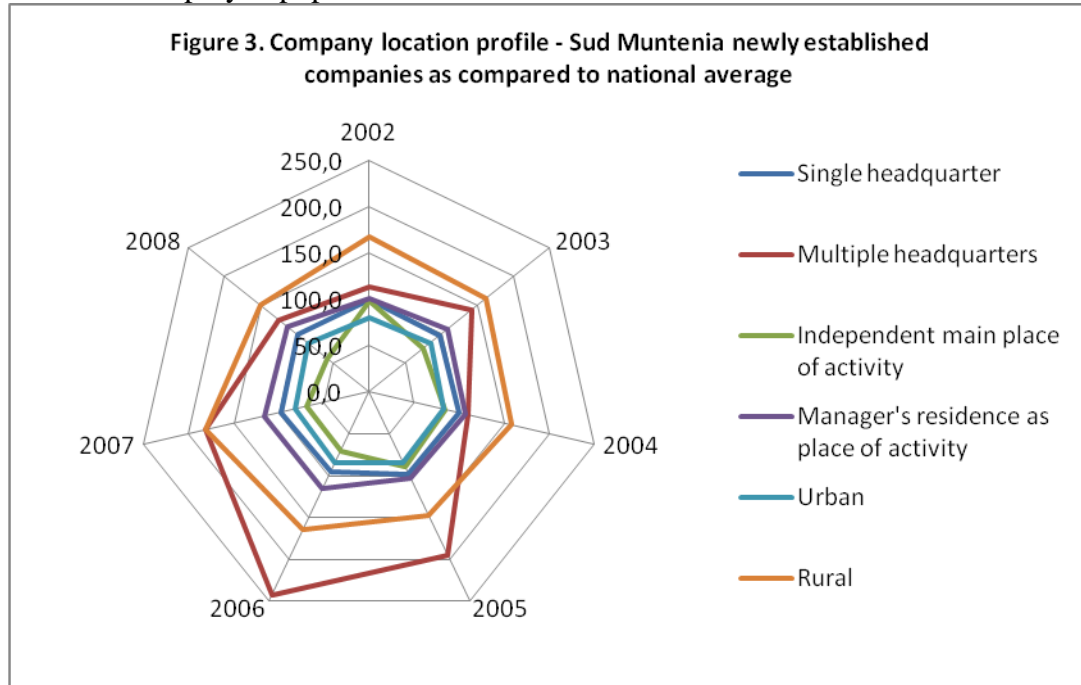
- The *overall profile of the newly established companies* (new companies henceforth) (Figure 1), reveals that a proportion higher than the national average of the new companies in the Sud Muntenia region were legally established as legal persons, and less as companies, and that the average number of employees in both types of business was declining towards the end of the analyzed interval.



- The *company employment profile* (Figure 2) reveal that in Sud Muntenia region most of the new companies had no employees or were small ones (having between 1 and 49 employees), while the larger companies were less represented among them. Also, the employees that were also employers/owners were more frequent in the new companies of Sud Muntenia region as compared to the national average, while part time employment (which is deemed as pointing towards greater labor market flexibility) was less represented.

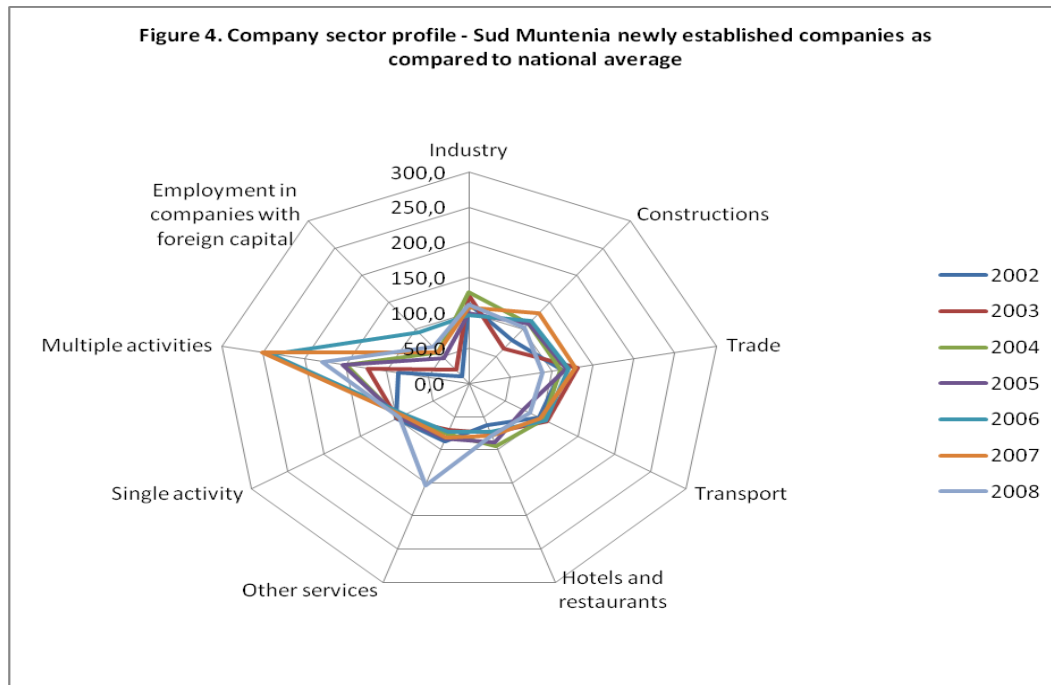


- The *company location profile* (Figure 3), show a higher proportion of new companies with multiple headquarters, but also with the manager's/owner's residence as main place of company activity. Also, more new company than the national average were located in the rural areas of Sud Muntenia region, which is not unexpected, given the previously mentioned higher shares of rural overall, active and employed population.

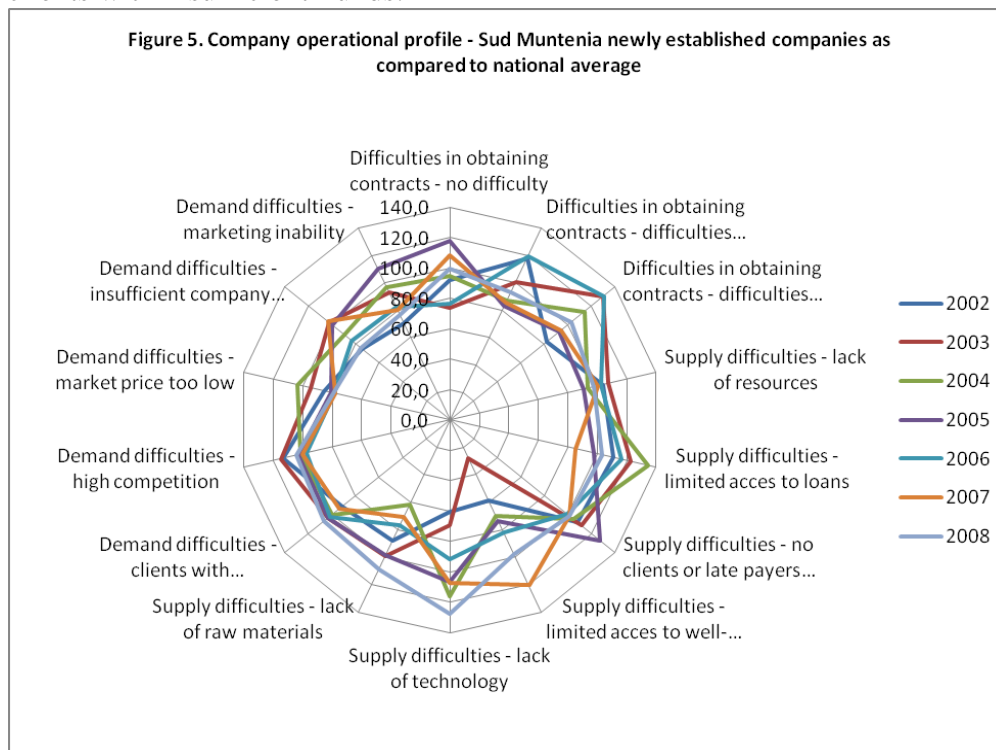


- The *company sector profile* (Figure 4), reveal a much lower share than the national average for the companies with foreign capital, higher shares for the new companies in industry, constructions and trade and a much higher share for new companies performing multiple activities (which is connected to the higher shares for multiple quarters). Less companies than national average were created in hotels and restaurants and other services (except for 2008), but in the former case the natural and cultural endowment of the region may have had a significant impact (most of the region's territory is flat, agricultural land).

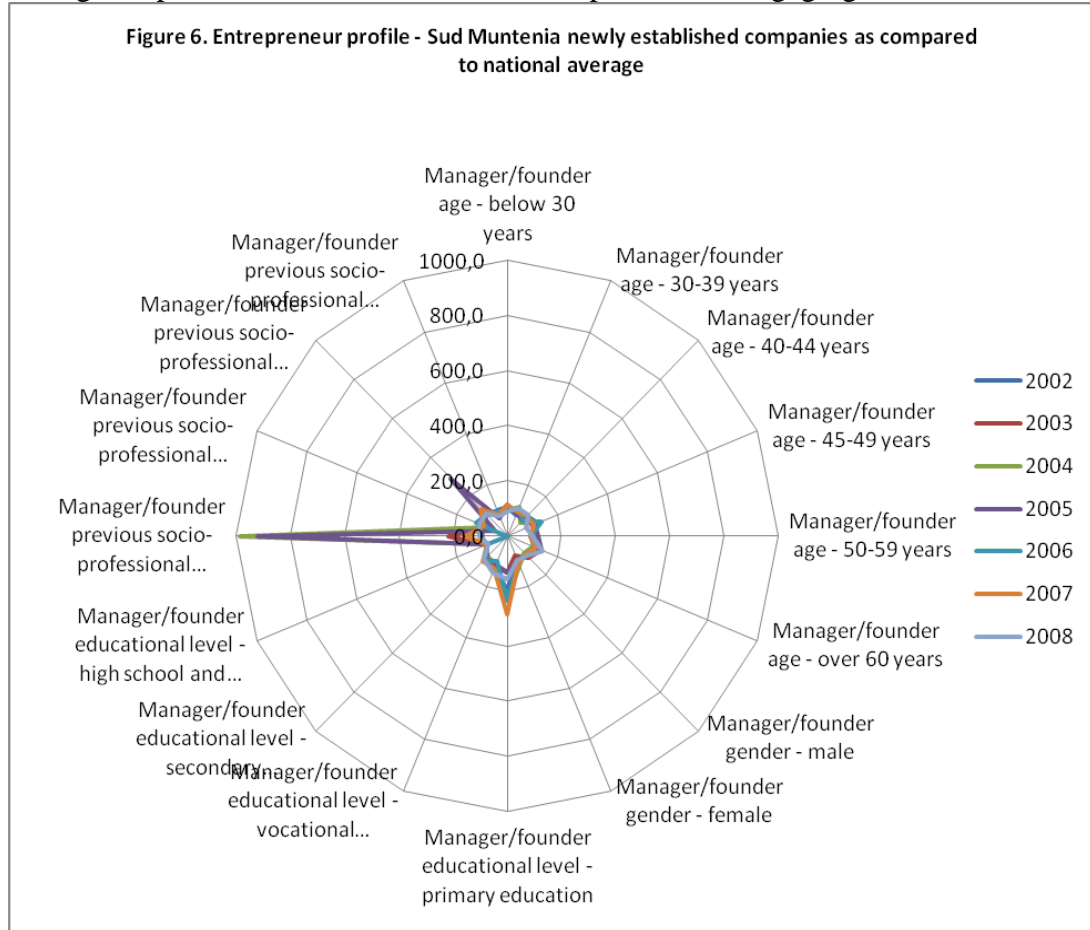




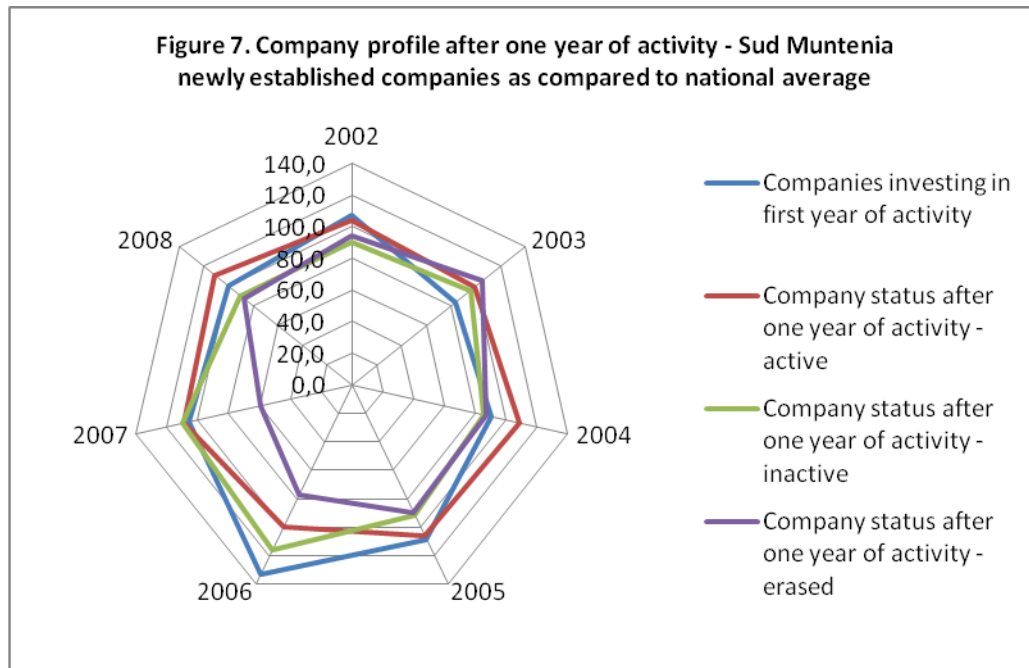
- The *company operational profiles* (Figure 5) show increasing difficulties of the new companies in the Sud Muntenia regions in connection with demand and/or supply. The most important *supply difficulties* (higher shares than the national average) were linked to the limited access to loans, lack of clients or presence of too many late payers and, increasingly, lack of technology, while the most important *demand difficulties* were linked to high levels of competition and clients with insufficient funds.



- Regarding the *entrepreneur profile* (Figure 6), among the managers/founders of the new companies in Sud Muntenia region the mature and older persons were best represented than on the national whole (and let us recall the age group distribution of active and employed population), also those with primary, vocational and secondary education (correlated also with higher shares of rural population, active and employed population), and the managers/owners that held managerial positions or were skilled workers previous to engaging in business.



- Finally, the *company profile after one year of activity* (Figure 7) show a higher rate of survival of the new companies in the Sud Muntenia region, and also of possible company development (a share higher than the national average of the new companies made investments in their first year of activity).



## Conclusions

Entrepreneurship is crucial for the economic development of a region, and there is increasingly higher demand and interest for placing it at the heart of development and rejuvenation of the less developed areas of Europe. Identification of the driving factors (economic or socio-cultural ones) that turn some persons into entrepreneurs may prove a very useful tool in shaping policies and programs aiming at augmenting entrepreneurship in certain regions, and in the whole economy as well.

The labor force participation of the population of Sud Muntenia region exhibits some specific features, of which the most striking are linked to the high shares of rural active and employed population and of the age groups at both ends of the labor-age spectrum, which rise questions about higher poverty and lower educational levels (usually associated to higher rural labor force and population). Consequently, adequate policies are needed, which may employ entrepreneurship in order to promote rural economic development, which is also perfectly in line with the EU policy regarding rural development (component of the CAP, but also of the cohesion policy and other EU policies connected to Europe 2020 Strategy).

Some services sectors recorded towards the end of the analyzed interval increases in employed population in the Sud Muntenia region, both overall and for females (real estate transactions, public administration, health and social welfare, show business, creative and cultural activities, other service activities), while the industrial sectors recorded declines, and such things signal possible restructuring, be it crisis-induced or not. This is also revealed by the entrepreneurship profiles of the Sud Muntenia region, which show that although industry, trade and transports are still favored for starting a business or investment, services become more and more attractive to entrepreneurs and investors. The profiles also signal lower educational and training levels of the managers, but also better propensity towards activity growth and diversification. A reason for

concern would be the decline in the young people's propensity to engage in entrepreneurial activity, which if adequately incentivized through policies and programs might both alleviate poverty among young people and create a solid base for further economic development. The propensity of less skilled and educated people of the region to become entrepreneurs is a good thing in itself and should be encouraged and backed up by training policies and adequate funding schemes (including ones that envisage easier access to the EU funds), while the lack of the same propensity of the educated people it is not and should be addressed by policies targeted at retaining the highly educated and skilled labor force in the region (unfortunately, the Bucuresti-Ilfov region, which is an enclave in the Sud Muntenia region is an extremely powerful labor and investment attractor) and at providing funding schemes and adequate incentives to put to work the knowledge and creativity of such people. Last but not least, networking of entrepreneurs should be strongly encouraged in order to address the operational difficulties faced by the regions' entrepreneurs and increase their recognition on the domestic and international markets.

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