

YOUNG ENTREPRENEURS - PROMOTERS OF ECONOMIC DEVELOPMENT

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Abstract:

Entrepreneurship in Romania is no longer an unfamiliar concept, but we can assert that it is a journey full of obstacles. Bureaucracy, the lack of fiscal predictability as well as the absence of an entrepreneurial culture often lead entrepreneurs to bankruptcy. A country develops itself with the help of strong economic policies dictated by the economic environment and not by the political one. The entrepreneur's policy is to make profit which has significant effects in all areas: social, educational, economic. Sustaining entrepreneurship is a solution to be taken into consideration for weighting youth unemployment, given the level reached in the second quarter of 2014 of 23.90%.

This article aims to capture aspects of the current situation of entrepreneurship in Romania among young people. Based on data collected, we will analyze the unemployment rate among young people at education level and county-level compared to the number of companies founded by students, with the rate of workforce occupancy. The contribution of young entrepreneurs to economic growth can be achieved in two phases, as more companies are founded, number of employees increases, as a consequence, more young people will become entrepreneurs, so the unemployment rate among them will thus decrease.

Keywords: *entrepreneurship, innovation, economic development, SMEs, youth unemployment*

JEL Classification: M13 and O10

1. Introduction

In the contemporary economy, entrepreneurial spirit and activities plays an increasingly important role. Once its accession to the European space in 2007, entrepreneurship began to grow in Romania.

The process of globalization and the global crisis of recent years have encouraged a number of structural changes felt deeply in the entrepreneurial plan. Competitive pressure increased at enterprise level, which caused an increase of productivity by using new technologies and process innovation. In addition, developments in the information and communication field led to the creation of new markets, which have revolutionized production processes in many sectors of the economy: industry and, in particular, the one of services. Advanced technology and the reduced costs of remotely communication, have contributed to easier access of entrepreneurs to knowledge and cooperation networks enabling them to operate on an international scale. The new opportunities have stimulated entrepreneurial initiative and creativity, which are considered the engines of economic development in 2020 (Post-Privatisation Foundation report on the SME sector in Romania, edition 2013).

Entrepreneurship is one of the main drivers of innovation, competitiveness and economic and social development (Carree and Thurik, 2003; van Stel et al., 2005; Wennekers and Thurik, 1999; Wennekers et al, 2005). Entrepreneurship makes creativity and innovation enter on the existing markets, having as prime scope the change in introducing innovative elements or even the creation of other markets, technologies, products and industries, raising capital resources which would lead to economic development and creation of new jobs. Thus, we can say that entrepreneurship is a key factor in economic and social development.

"The entrepreneur is the intermediary between capital and labor" (Cantillon, 1755). This is supposed to be the first published definition of entrepreneurship in the first treaty of modern economy "Essay sur la Nature du Commerce en General". Entrepreneurship can not be defined precisely, some authors believing that entrepreneurship is a specific activity

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(Schumpeter, 1934), others have emphasized the discovery of new opportunities (Kirzner, 1979), others have focused on the creation of new enterprises (Gartner, 1985) or on generating new innovative projects (Casson, 1982). In general terms, entrepreneurship involves analysis, evaluation and exploitation of opportunities, even the creation of new companies (Shane and Venkataraman, 2000).

Following a study conducted on Romanians, the result is that 79% of Romanian young people under 30 years have a positive attitude towards self-employment, in addition, 3 out of 4 young Romanians believe that in 10 years entrepreneurship will be more important or at least as important as today, while 3 out of 10 Romanians can be seen opening their own business (the Economist Magazine, The entrepreneur, The Unknown Hero of the economy. A fight's market, so you fight!, 2013).

A first finding on the the above data refers to the obstacles that young people encounter in setting up their own business, and not only, given that the unemployment rate among young people far exceeds the EU average - 28. The major obstacles for young people, collective characterized through creativity, innovation, entrepreneurship and adventurous spirit, low aversion to risk and a greater sensitivity to technological changes, are the lack of opening capital, and also their uncertain economic situation.

We live in a world full of opportunities and so often we hear names like Mark Zuckerberg (Facebook founder, 26 years), Blake Ross (Founder Mozilla Firefox, 25 years) Talpes Florin and Radu Georgescu (BitDefender). These last ones come from different countries, but what unites them is that they have done business from their hearts and did not miss the opportunity to develop their managerial qualities of youth, in this way becoming the world most famous entrepreneurs. Despite their fame, nowadays very few young people are trying to follow their foot steps. Their success stories, as reflected in capitalist charts can have a significant impact on young people, the persons listed before can perform the function of mentors in entrepreneurship.

Due to financial crisis, but also to the political one, it is very difficult for young people to start a business and this initiative is destroyed right from the start, so the idea of entrepreneurship has no powers to be developed in the imagination of our future business men and women.

The lack of entrepreneurial subjects in higher education with which imagination and innovation can be stimulated and the cultivation of managerial qualities as well as the absence of funds for educational programs, lead to lack of knowledge regarding how to launch and manage businesses by young people. Persistent young people who overcome these barriers encountered others such as corruption, lack of transparency, protectionism but also problems in finding and attracting financial resources for the company's activity.

The first step in the development of the study was an analysis of Romanian entrepreneurial ecosystem using the data contained in the Global Entrepreneurship Monitor in order to provide an overview on the current situation, on the evolution of Romanian perceptions on entrepreneurship, as well as on the entrepreneurial activity in Romania. The next step in the study was the identification of factors that have the potential to positively or negatively influence the ecosystem of entrepreneurship among young people in Romania at county level, following a carefully review on the occupancy rate, unemployment rate, but also on the companies founded by people between 18-24 years, especially students. The results obtained were analyzed to understand the current situation of entrepreneurship among young people in Romania and which are the measures to be taken to increase it.

2. Romanian entrepreneurial ecosystem – where to?

"Small businesses are the main catalyst of economic growth (P. Drucker)". Small businesses contributes largely to achieving the fundamental objectives of any national economy.

Small and medium enterprises have become more important in the economy of Romania as workforce providers, as well as key to the local and regional community wellbeing. Entrepreneurial environment in which these businesses develops require special skills such as responsibility, spontaneity, adaptability, foresight, initiative and management skills.

Declining trend of the SMEs places Romania among the last Member States from this category with major repercussions on workforce. Currently, small and medium enterprises provide approximately 2/3 of all jobs. Moreover, this decrease leads to gaps in entrepreneurial development which is measured mainly through the number of active SMEs per 1,000 inhabitants, which currently worth 24 companies per 1,000 inhabitants.

Surprisingly, statistics show that Romania is the first country in the EU in terms of entrepreneurial intentions, 23.70% of the Romanian population is willing to own their own business.

Table no. 1 shows the evolution of individual perceptions recorded in Romania in 2007-2013. Looking at this table, it can be observed, first, that Romania registered in the analyzed period, values greater than the EU average. That means that the Romanian population have a strong interest in entrepreneurship, business development, for a status in the society.

Table no. 1 Evolution of individual perceptions in 2007-2013 (%)

Individual perceptions	2007	2008	2009	2010	2011	2012	2013	EU-28 Average
Fear of failure	28.3	41.5	50.4	45.99	43.05	45.05	37.3	39.8
Perceived capabilities	29.4	23.8	27.3	38.18	41.63	38.34	45.9	42.3
Entrepreneurial intentions	41.6	37.9	35.5	39.05	29.36	30.36	23.7	13.5
High status to successful entrepreneurs	46.6	48.8	49.3	57.32	59.37	68.63	72.6	65.5
Perceived opportunities	26.2	25.8	13.8	17.52	36.06	36.73	28.9	28.7
Entrepreneurship as a good career choice	62.5	68.5	67.2	65.5	69.42	71.15	73.6	56.9
Media attention to successful entrepreneurs	50.4	56.2	47.4	46.92	56.74	55.24	61.3	49

Source: Global Entrepreneurship Monitor 2013 – Global Report, Romania 2007-2013

During the global financial crisis, the fear for failure increased significantly, but for 2013, it recorded a lower value even as the EU-28, showing that the Romanians began to gain confidence in themselves, in their own strengths and ideas. Also, Romania is the second country in the EU Member States - 28, where 73.60% of the population believes that entrepreneurship is an excellent career alternative. All member states, including Romania, considers that entrepreneurship offers a privileged status in the society.

A significant development for the economy of our country is the perception of people who believe that in the next six months good opportunities will appear for starting a business in the environment in which they live. As we can see, Romanians perceptions on entrepreneurship are encouraging, but the data on the number of SMEs shows the opposite.

Marius Ghenea, a Romanian success entrepreneur, states in a first book about Romanian entrepreneurship: "Romanian entrepreneurs are in the majority, convinced that no one can understand, lead, coordinate and restructure their business better than themselves". However, we see that taking the decision intuitively is not enough for sustainable development of small and medium enterprises.

There are sufficient reasons for choosing to carry out entrepreneurial activities on our own, instead of having an employee status. Most often, entrepreneurship is viewed as an

opportunity or as a means of living in the absence of an alternative or because of the fear of becoming unemployed in a future perspective. As opportunities shall be declared desire for independence and financial gain higher than as an employee.

Regarding the rate of entrepreneurial activity in Romania, the highest levels can be found in the rates of entrepreneurial activity motivated by opportunity and necessity. Also we see that early stage entrepreneurial activity rate in 2013 is 10.1% higher than that measured in 2012 (9.22%). At the same time, is observed an increase in the owners of new companies, as well as, on the entrepreneurs in training (Table no. 2). Unfortunately, these rates are among the lowest in the efficiency-driven economies.

We observe that, besides the absence of a cultural heritage, Romanian entrepreneurs have a lack on the entrepreneurial models and methods.

Table No. 2 Rates of entrepreneurial activity in Romania (%)

Entrepreneurial activity	2009	2010	2011	2012	2013	Eu-28 Average
Discontinuation of businesses	9.4	10.65	7.71	3.78	4.3	2.9
Nascent entrepreneur-ship rate	2.79	3.2	5.56	5.51	6.2	4.8
New business ownership rate	2.3	1.09	4.51	3.83	4.2	3.3
Early-stage entrepreneurial activity	5.02	4.29	9.89	9.22	10.1	8
Established business ownership rate	3.38	2.08	4.57	3.91	5.3	6.4
Improvement-driven opportunity	2.76	2.94	5.68	6.94	31.6	22.7
Necessity-driven	1.71	1.27	4.09	2.23	31.6	47

Source: Global Entrepreneurship Monitor 2013 – Global Report, Romania 2009-2013

"It's very hard to create business models in only 20 years of democratic development and market economy. And the few existing models are rarely presented to the public interested in entrepreneurship because of media tabloidization and the fact that the business journalism (the only that shows these models) have a niche audience "(Ghenea M.).

Also, from the data collected, it resulted that Romania is ranked among the countries with very poor representation of young people in business and granting them some opportunities to launch and use their abilities to the benefit of the country should be seen as an investment with a good chance for success.

Young people with entrepreneurial education develop business skills, as well as attitudes and essential skills, including creativity, initiative spirit, tenacity, team work abilities, risk assessment and responsibility.

3. Youth unemployment - their only chance being the entrepreneurship

Supporting entrepreneurship is a solution to take into account for the problem of youth unemployment. Young entrepreneurs, known as "the generation of ideas", have proved that they have advanced knowledge in the field of IT and in conjunction with their participation in social networks lead to the establishment of a successful business which decreases the level of unemployment, contributing thus to economic growth and innovation.

Because of the lack of experience and a limited number of skills compared to most adults already integrated into the workforce, young people often have difficulties in finding jobs.

The issue of youth labor market classification has become a serious one because, in the last years, it was recorded a critical unemployment rate among young people in Romania. Given the above, I will try to analyze the current situation of unemployment rate both, by level of education of young people with ages between 18-24 years, as well as at county level, of the activity rate and occupancy rate showed among youth.

Following the studies developed in this regard it emerged that 74% of young Romanians with higher education have a positive attitude towards entrepreneurship visible aspect through the youth unemployment rate by level of education.

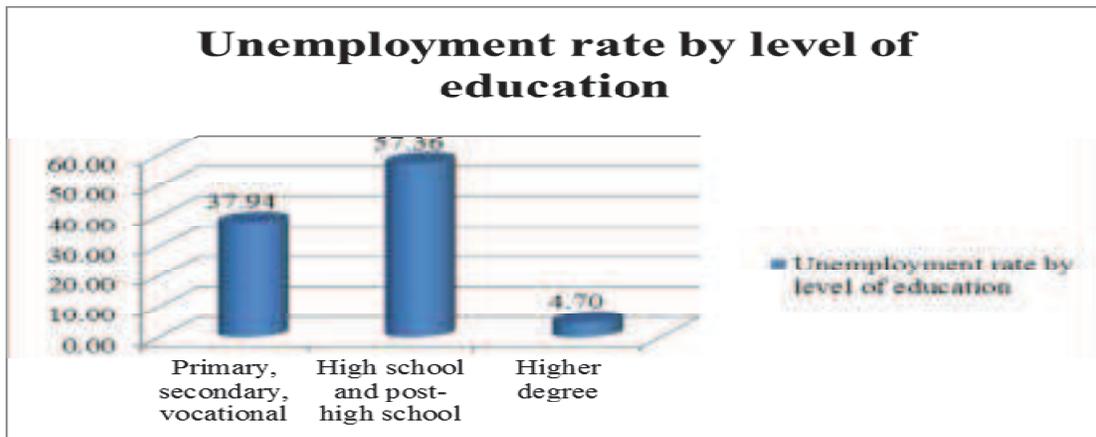


Fig. no. 1 Unemployment rate by level of education
Source: The National Employment Agency, June 2014

I find it relevant that the representation of unemployment rate among young people, taking into account the large number of unemployed persons, based on the education level, representation shown in Fig. No. 1. We notice that young unemployed persons with high school and post-high school education, but also those with primary, secondary and professional education have the largest share in the total of young unemployed persons up to 25 years.

In the second quarter of 2014, from the data collected, it appears that the unemployment rate among young people has reached a level of 23.90% (Fig. No. 2). Youth unemployment causes long-term effects on both the income and the stability at the workplace since young people affected by unemployment have lower levels of credibility and they are not as confident and flexible when comes the opportunity thus, professionally growing harder.

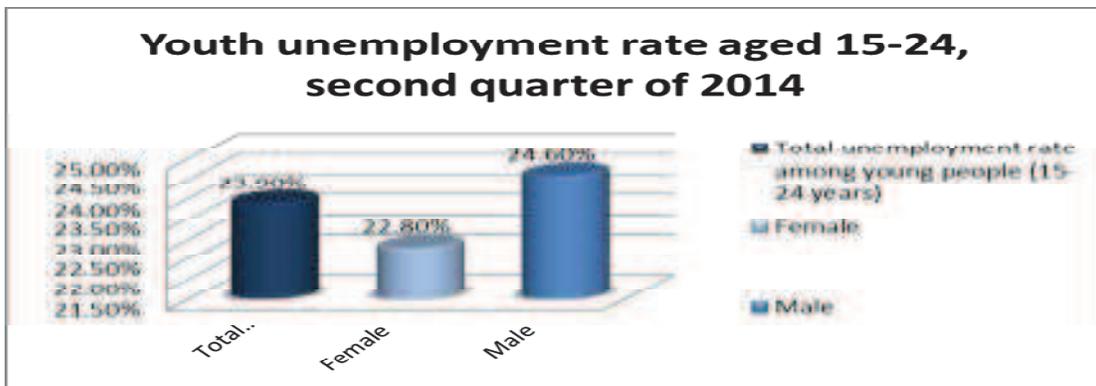


Fig. no. 2 Youth unemployment rate aged 15-24, second quarter of 2014
Source: National Institute of Statistics, second quarter of 2014

The increase of unemployment rate among young people can be seen also through the school abandonment rate which in Romania is currently growing, as well as the educational system. It was discovered that young people renounces school mainly because of personal or family problems, learning difficulties or unfavorable socio-economic situation, but also because of the structure of the education system and school environment.

For the development of dynamic companies is essential to improve education for entrepreneurs to be able to gain in universities, especially those with technical and scientific guidance, which should play a key role in supporting the development and outsourcing in the field of commercialization new technologies that are based on innovation and research.

Analyzing at county level, the lowest unemployment rate is not as we expected, in Bucharest, but in Ilfov - 0.70% of the total of 23.90%, followed by Gorj, Timis, Bacau, Tulcea. Counties with the highest unemployment rate among young people are Dolj (1.67%), Mures (1.47%), Teleorman (1.29%), Bucuresti (1.22%), Suceava and Galati – 1.09%. Representation of youth unemployment rate aged 15-24 can be found in Fig. No. 3.

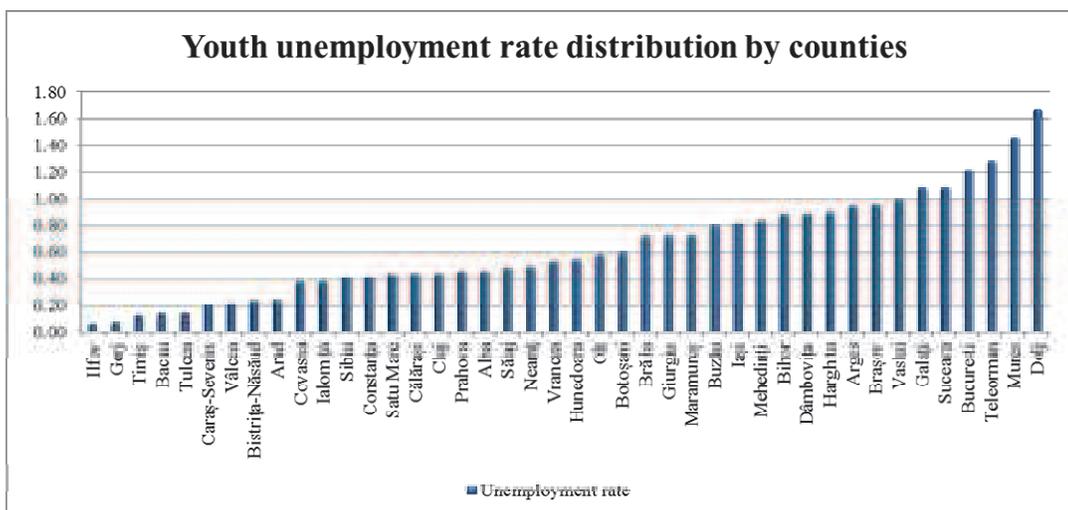


Fig. no. 3 Youth unemployment rate distribution by counties

Source: The National Employment Agency, June 2014

Despite the fact that the counties Dolj and Bucharest recorded the highest rates of youth unemployment, we see that it ranks in the top 5 counties where most students have founded SMEs (Fig. No. 4).

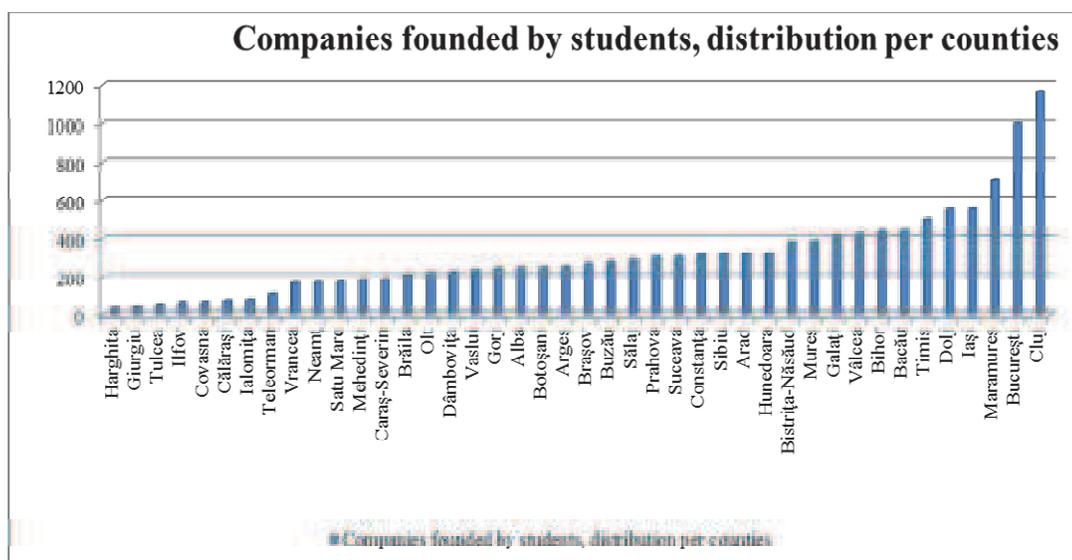


Fig. no. 4 Companies founded by students, distribution per counties

Source: The National Employment Agency, June 2014

Last ones benefited of the facilities that Government gives to students, programme for all young people who want to become entrepreneurs and based on which will be exempt from

paying some taxes and fees. The program is developed in order to reduce the unemployment rate among young people in return for increasing employment rates among them.

However, the lack of studies, models and mentors, but also business incubators for young people, leads to an occupancy rate of young population smaller and smaller. As shown in Fig. No. 5 the occupancy rate for young people up to 24 years old recorded a negative trend compared to the same period in 2013.

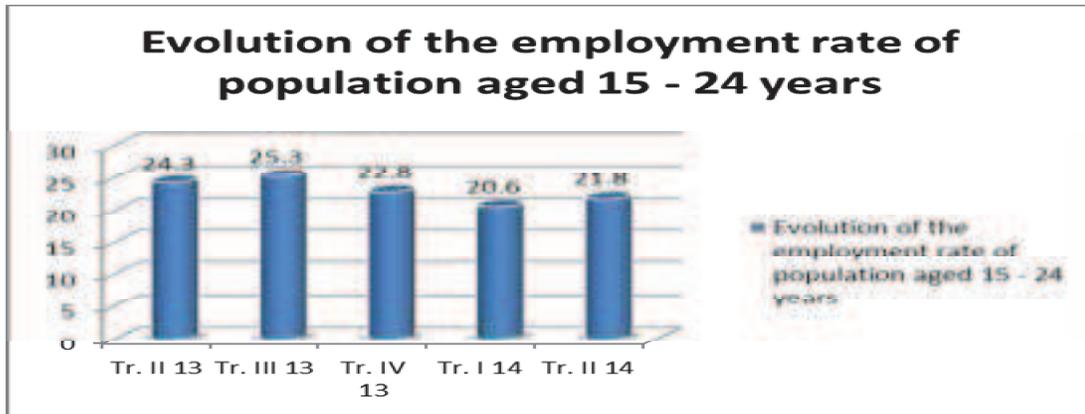


Fig. no. 5 Evolution of occupancy rate of population aged 15-24, second quarter of 2014
Source: National Institute of Statistics, second quarter of 2014

If we were to compare the constraints faced by young people with initiative, compared to adults, we will see that adults have more advantage due to work experience they already have, but they are not as enthusiastic and do not contribute to the creation of new businesses. In this way, the business community, as well as the economy overall, suffers.

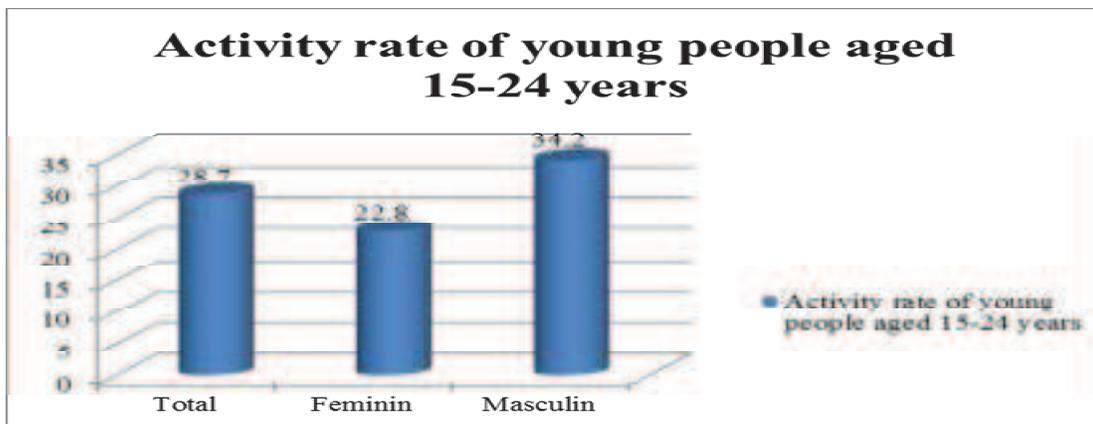


Fig. no. 6 Activity rate of young people aged 15-24, second quarter 2014
Source: National Institute of Statistics, second quarter of 2014

Following the data collected, it resulted a 28.70% rate activity. We observe that young males have a higher activity rate, activating mainly in IT, technology, while young women are more active in services (Fig. No. 6).

The contribution of young entrepreneurs to economic growth can be achieved in two phases, as more companies are founded, number of employees increases, as a consequence, more young people will become entrepreneurs, so the unemployment rate among them will thus decrease.

In order to increase the number of entrepreneurs, we need funding and mentoring. Funding without mentoring is inefficient, as is mentoring without funding. Also, in order to succeed, we require a simple and friendly environment in terms of regulations and fiscalization, in other words the reduction (Taming) of red tape.

4. Conclusions

Entrepreneurship represents a solution for a healthy economy, so it is important to create policies for the maintenance and development of entrepreneurship in Romania.

The biggest obstacle in the development of a business is the lack of financing. This is especially true for those seeking to develop a new type of product or service, while traditional funding — such as business angels, private equity and venture capital — remains even more limited for a young entrepreneur. Addressing the funding gap must be a key priority for Romania in order to support young entrepreneurs and help stimulate job creation.

Also, providing financial support alone will not be enough to enable young entrepreneurs to fulfill their potential and serve as an engine of job creation. It is known that capital without mentorship may prove to be capital lost.

Young entrepreneurs need more support than their older peers, so there is a pressing need to provide these growing businesses with a stronger support ecosystem: with business incubators especially, but also mentors, start-up programs, entrepreneurs' clubs and associations — which help facilitate networking and the sharing of best practices — and know-how.

The creation of clusters or technology hubs should be taken into consideration in order to bring together all the disparate but essential components and players — including universities and corporates — of a successful entrepreneurial ecosystem, facilitating young entrepreneurs' access to knowledge, opportunities and resources.

Viewed objectively, it should be obvious that younger entrepreneurs need more of this broad-based support. They have limited experience in running businesses and fewer opportunities to build useful networks with peers and mentors. Unless young entrepreneurs get extra help, their efforts may not be successful even if they are able to attract funding.

Also, bureaucracy, labor force taxation and the ambiguity of the legal framework are considered to be barriers to entrepreneurship development in Romania. Decision makers priority, in order to stimulate entrepreneurship should be the establishment of some policies for the demolition of these barriers.

Stimulating young people to become entrepreneurs would reduce the unemployment rate and will increase revenues to the state budget.

Young entrepreneurs will not succeed in greater numbers until governments create a simpler, SME-friendly business environment.

For reducing bureaucracy we need a simplified system, namely the realization of two statements per year, at the beginning of the fiscal year and the end of the fiscal year, for those who have never had status of entrepreneur.

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