

THE ROLE OF ENTREPRENEURSHIP IN THE DEVELOPMENT OF THE SERVICES SECTOR AND OF THE SOUTH-WEST OLTENIA ECONOMY

**Scientific Researcher: PhD. Laurentiu Radu
Institute for Studies in Social Sciences and
Humanities "C.S. Nicolaescu-Plopsor" – Romanian
Academy**

Abstract: Solving social and economic problems in the context of financial and economic crisis attributes to entrepreneurship an important role in the development of new projects that promote social welfare. In the regions of Romania there are still development lags accumulated over time, which are reflected in the quality of the business environment and entrepreneurship level. This work paper analyzes the business sector and describes the economic potential of the South West region.

JEL classification: F2

Key words: entrepreneurship, entrepreneurs, labor productivity, the structure of enterprises, domestic market

In the context of the many economic life challenges, the implementation of some appropriate measures for the stimulation of the regional entrepreneurship represents a necessity for the economic development of the South-West region of Oltenia.

Although the world states focus on great economies saving, a special attention should be still given to the fact that the role of the small businesses in creating jobs was not taken into account. Small businesses which contribute to a great extent to the achievement of some basic aims of any national economy represent the best source of innovations and in the same time they can become the prospective great businesses. SMEs play an important role in the regional economy for the following reasons:

- structures flexibility gives a higher adaptive capacity to the fluctuations of the economic environment;
- small and medium enterprises can relatively easily integrate in a regional industrial network, fact which contributes to the economic development of that region, to the decrease of unemployment and to the decrease of living level;
- their reduced size allows a more efficient acting inside or outside the localities weakening the monopoly positions of large enterprises;
- SMEs contribute to the improvement of the competitive environment, also providing opportunities for the local resources capitalization;

The vulnerability of SMEs consists in the fact that they dispose of limited resources, which means that the technological level is lower than that of large enterprises. In this issue information plays an important role in adopting some measures of risk factors prevention;

Howard Stevenson, the Entrepreneurship Activities Centre manager from

Harvard memorably formulated an undeniable truth: ‘An advantage of large companies is that they make big mistakes, but they survive.’⁴²

In the case of SMEs, when these make big mistakes, the most probably they go bankrupt - a fact that bankers thoroughly take into account’.

Business planning in the area of small and medium-sized enterprises represents a process which has as central aim the search of market opportunities, continuing with the attempt of getting competitive benefits through customer attraction and results fructification for the benefit of the entrepreneur. In this respect, there are noticed distinct features between the entrepreneur who searches and creates resources and the administrator manager who tries to use the existent resources as well as possible. Many entrepreneurs start the process of opportunities capitalization without any other resource apart from the confidence that they have identified a real possibility to create a new enterprise. Besides the quantitative argument, SMEs represent an engine of the economic growth which is usually characterized by dynamism, flexibility and innovative strength, being capable to adapt along the way to the changes occurring in the economy. The entrepreneurs must adapt to the market tendencies, to be supporters of changes and promoters of trajectories towards economic and technological progress. This is essentially the entrepreneurship principle.

The climate dominated by the economic and financial crisis represents a challenge for experienced companies but also for new entrepreneurial ideas from the region. Those who managed, in the current economic context, to find the most appropriate innovative solutions now represent references for those who have the initiative to start on the path of entrepreneurship. The crisis period also represented the pass across a learning period for entrepreneurs, managers and companies’ staff that have had to adapt to the new conditions. Relatively new companies, that have experienced only periods of growth since the foundation, have been placed in front of some situations of uncertainty and instability.

According to statistics, the SMEs were the most affected by the financial and economic crisis, especially in the context of the lack of poor enforcement of anti-crisis measures. Romanian business sector between 2008-2009 faced a difficult macroeconomic environment, with large unpredictable changes that led to the deterioration of the general business environment, the consequences of the financial and subsequently economic crisis being also reflected on the South West region of Oltenia.

Therefore, the business sector was forced to evolve in an environment characterized by rebellion, uncertainty and very low predictability.

Although Romania's population exceeds that of many European countries, it still has a shortage of enterprises, namely 23 SMEs/1000 inhabitants. General development gaps accumulated over time persist between the regions of our country, fact which is reflected in business environment and entrepreneurial level characterized by the density indicator SMEs per 1,000 inhabitants.

In the South-West Oltenia region, the year which saw the lowest number of new companies registered was 2009, year of economic and financial crisis, followed by a slight recovery of the gap in the period 2010-2011.

⁴² The role of SMEs in ensuring economic growth – Isărescu, BNR Governor
The note opening symposium presentation "Romania, where?", Bucharest, February 9, 2011

Table no. 1 - Registrations and deregistrations evolution in the South-West Oltenia region

	2005	2006	2007	2008	2009	2010	2011
Registrations	12.075	9.645	9.801	10.673	8.921	10.190	11.932
Deregistrations	8.505	10.827	3.711	4.179	4.963	16.053	5.241

Source: National Office of Trade Register, 2012

Considered among the least competitive, South West Oltenia region has a density of 16.4 inhabitants SME-s/1000, recording a rate of only 7.5%, which places it among the regions with the lowest number of SMEs in the country.⁴³ Regarding the number of deregistered companies, it has seen since 2007 a relative stabilization around the annual value of 4,000 units, after the years 2005 and 2006 when it registered values of 8.505, 10.827 respectively. The exception represented the year 2010, which saw a record value of 16.053, this being mainly due to authorized individuals, individual enterprises and family businesses that have not turned the operating permits under EO 44 / 2008 to the legal term.

It is noticed the fact that companies progress at regional level experienced general positive values, except for the years 2006 and 2010, when the number of deregistered companies exceeded that of newly registered firms.

Entrepreneurship development perspective, and support actions have been highly affected by the heightened of the economic and financial crisis. The compression of domestic demand for goods and the market downturn in the region, the lower revenues and the rising unemployment led to the reorientation of many entrepreneurs, drastic reduction of many businesses, their activities restriction or liquidation.

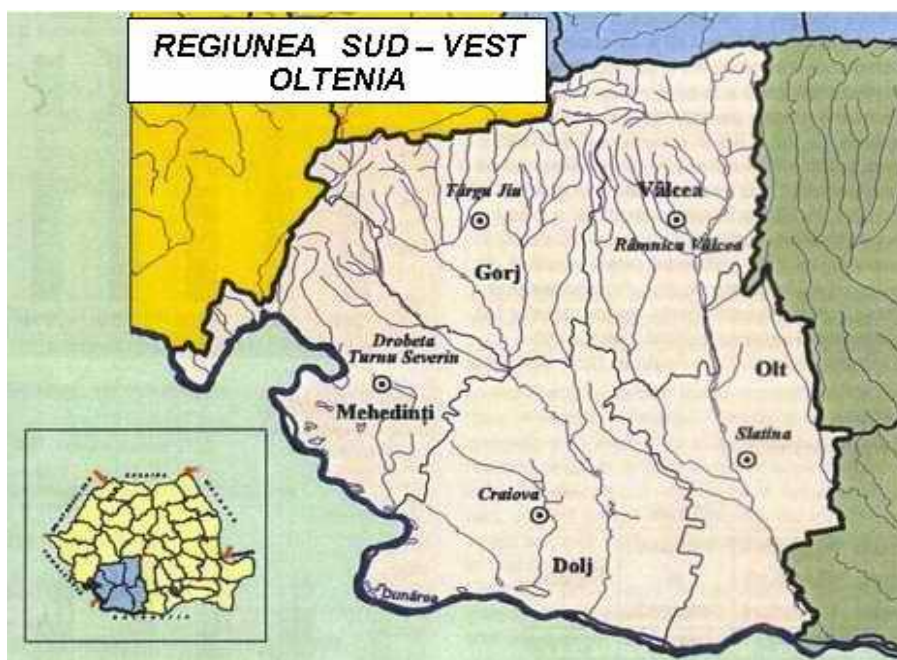
The global economic crisis has manifested itself by reducing the rate of development of entrepreneurship and increasing the number of bankruptcies, affecting the economy of the South West Oltenia. The period 2008-2010 showed that the SMEs sector is one of the most affected by the financial and economic crisis, representing in the same time the sector which can substantially contribute to remedy the economy as a whole.

In Region 4 South West Oltenia there were 177 477 registrations from 31 December 2011, of which 45,800 SMEs, representing about 8% of the national total, of which assets are about 36 000 units. Of this number, approximately 92.0% represent micro enterprises, and 98% achieved a turnover of 200 thousand. In this region the SME sector is stabilising. The volume of fixed assets is approximately 3.1% of the national total; also the SMEs in the South-West have only 3.7% of the total debt.⁴⁴

From administrative point of view, the development region South West Oltenia includes 5 counties (Dolj, Gorj, Mehedinți, Olt, Valcea), as shown in the figure below.

⁴³ Post-Privatisation Foundation report on the SME sector in Romania, 2013 edition

⁴⁴ Research Report, Analysis of current entrepreneurial South-West Oltenia www.competimm.ro



Source: National Institute of Statistics
Figure no. 1

According to the National Institute of Statistics, 1 July 2010, South West Oltenia had a population of 2,246,033 inhabitants, representing 10.5% of the country population.

Dolj County has 20.5% of all enterprises while the opposite is Mehedinți with 10.1%.

The contribution of SMEs to the development of the region is reflected in the economic outcomes, as shown in the following chart.

Table no. 2

County	Turnover (mil.lei)	Exercise net result (mil.lei)	County share %	
			in CA	in RNE
Dolj	8.160	572	36.9	40.7
Gorj	3.130	207	14.2	14.7
Mehedinți	2.300	136	10.4	9.7
Olt	3.650	206	16.5	14.7
Valcea	4.860	284	21.9	20.2
Total	22.100	1.405	100.0	100.0

Source: NIS data processing, Database Tempo online

If the role of SMEs is fundamental to ensure the economic flexibility and a rapid adaptation to a business environment that is in the process of transformation, certainly nor large enterprises mission should be omitted. The size of these enterprises and the owned assets confer considerable advantages of market access and financing, but also great strength to invest in technology, research and development.

Large enterprises with over 250 employees can act on regional economic growth. Although their number is reduced compared to SMEs, the share of large enterprises in the power of employment and respectively in the total turnover is significant. In 2009, 38.7 % of the employed people in the South West Oltenia region were working in large enterprises. The statistics also highlight the important social role that these economic units play.

The structure of enterprises in South West Oltenia region can be seen starting from two different datasets. On the one hand, information on Trade Register registrations can be analysed having NTC as data source. On the other hand, another set of data on the total number of active companies may be obtained from the Institute of Statistics. Obviously, the number of active entrepreneurs is much lower than that of the registered units.

In the economy of the South -West region Oltenia, in late 2008 there was a total of 40 236 active local units, up by 6% compared to 2007. In 2011, in the S-W Oltenia region worked 33.706 companies covering most of the economic activities. The region has 16.1 companies/1000 inhabitants compared to the national average of 23/1000 inhabitants. Among the counties of this region ,Dolj has 18.8 companies/1000 inhabitants, 17.3 Vâlcea 17.3, Gorj 15.9, Mehedinți 12.5 and Olt 13.3.

Although there is a greater stability in the region of Oltenia, compared to the national average, it conceals in the same time a lower adaptive capacity of the companies in the region to the new market conditions. In a changing economy, adaptation is more important than a longer life of companies.⁴⁵

Dolj County is the most developed of all the counties of the South West Oltenia Region. The most important activities are carried out in the following sectors: energy industry, engineering industry, electrical industry. chemical industry, mining, food industry, textile industry, building materials industry, manufacture of arms and ammunition, furniture industry, automobile and aircraft construction, agriculture and animal husbandry especially in the Danube and Jiu meadows.

In Gorj county the dominant companies are from: the mining industry: - coal mining in Rovinari Motru Jilț exploitations; oil and natural gas industry; energy industry: Turceni and Rovinari thermo-electric power stations and the hydro-electric stations located on the rivers Jiu, Olteț and Motru - Cerna - Tismana, building materials industry - cement, lime, bricks and ceramic blocks, refractory bricks, precast concrete, wood processing - lumber, furniture, flooring, particle board of wood chemical industry - manufacturing technical rubber manufacture weapons and ammunition, machinery, mining equipment, household glass production , food industry - bakery, beverages, cigarettes, textiles, agriculture and animal husbandry, tourism – the speleological reservation from Cloșani, Jiu pass, the quays of Olteț and Sohodul, the Women’s cave and the cave from Polovragi, Rânca and Săcelu mountain resorts.

⁴⁵ South West RDA, study on business development at regional and economic crisis on businesses, economic development analysis Section South-West Oltenia, p.61

Mehedinți county is characterised by a lower intensity of economic activities, the most important being: the energy industry - Iron Gates I and II, chemical industry - the production of heavy water nuclear reactors designed for nuclear reactors, super easy water, liquid nitrogen, demineralised water, drinking water, distilled water and industrial water, food industry, ship building, wood industry, agriculture - Danube Meadow, tourism - Cerna Quays, Natural Park Iron Gates.

In Olt county the most important activities are carried out in the following sectors: energy, metallurgy - manufacture of steel components, processing of aluminium and aluminium alloys, primary aluminium production, chemical industry - rubber processing, manufacturing Carbon cokes, produced from graphite, silicon carbide, machine industry: manufacturing of components for wagons, manufacture of rolling stock - freight wagons, exploitation of coal, food industry - beet sugar processing and raw sugar refining , agriculture and animal husbandry - production, industrialisation and marketing of agricultural buildings , growing zones Samburești Dobroteasa, Morunglav, Vitomirești, Strejești, farming in the Danube meadow and along the river Olt and Olteț.

Vâlcea is represented by: energy industry - using the energy potential of the river Olt and its tributaries , resulting in a production of 1,000 MW , of which 510 MW only from Ciunget Lotru station- the largest hydroelectric station in Romania, chemical industry – this county has one of highest processing capabilities in its area, the mining industry - surface coal mining and exploitation of limestone, oil and natural gas , wood processing , machine building industry , light industry – it is represented the footwear and garment factories and leather imitation, textiles and nonwovens, food industry is represented by factories of canned fruit and vegetables, meat and dairy products, bread and soft and alcoholic drinks, agriculture and animal husbandry especially in Olt meadow, tourism - resorts Călimănești- Caciulata, Govora, Ocelele Mari, Bistrița, Cozia monasteries and and One Wood monastery, mountain areas.

Taking into account the distribution of various types of business opportunities by regions of development, we see the following differences bigger than the overall situation: SMEs in the South East region frequently reported domestic sales growth (71.43%) and new markets penetration (57.14%).

Businesses in the Central region have the highest proportion of SMEs that records the uptake of new products (52.54 %) and grants obtaining (54.24 %), but it is the last one regarding the use of new technologies (15.25 %) and the achievement of business partnership (27.12 %). South West is more poorly represented by companies entering new markets (34.33 %), but it has the best position in relation to companies aiming to increase exports (39.55 %). Southern companies recorded lower share of SMEs which indicated the increase of domestic sales (50.77 %) and exports increase (9.23 %). Making a business partnership is a business opportunity more frequently manifested in Bucharest (40.55 %) and the uptake of new products is rarely noticed to the economic agents in North-West (29.09 %).

Table no. 3 - Business opportunities frequency according to development regions

Crt. No.	Business opportunities for 2009	SMEs grouped by development regions							
		North East	South East	South	South West	West	North West	Center	Bucharet
1	Domestic sales increase	66,8%	71,4%	50,77%	67,54%	65,33%	61,%	66,1%	62,99%
2	Exports increase	11,7%	20,78%	9,23%	39,55%	12,00%	22,%	10,1%	13,78%
3	New technologies use	42,7%	31,1%	27,69%	36,94%	28,00%	29,%	15,2%	26,77%
4	New markets penetration	51,8%	57,1%	44,62%	34,33%	41,33%	39,%	37,2%	38,98%
5	New products assimilation	41,1%	45,4%	52,31%	33,21%	36,00%	29,%	52,5%	45,28%
6	Business partnership realization	36,9%	35,0%	33,85%	27,61%	34,67%	27,%	27,1%	40,55%
7	Grant attainment	24,0%	32,4%	23,08%	22,01%	13,33%	24,%	54,2%	18,11%

Source: South West Oltenia RDA, *The study on business environment development at regional level and the economic crisis impact on enterprises*, p.48

The analysis of the contextual developments with negative influence on the activities of SMEs by development regions mainly highlights the following aspects:

1. SMEs in the South West region have the highest percentages of enterprises in which there are indicated the excessive bureaucracy (53.73%), the corruption (44.78%) and the ethnic tensions (17.91%);
2. Southern companies are experiencing a higher frequency the adverse impact of the evolution of the legal framework (78.46%);
3. Enterprises in the North West region recorded the highest proportion of SMEs that indicate the climate / the social tensions (40.91%) and the policy changes (28.18%);
4. Companies in Bucharest are affected to a greater extent by the IMF/WB policy in our country than our country (22.83%);
5. South and South East regions does not record enterprises in which there are highlighted negative influences of the military conflicts in the nearby areas of Romania;
6. In terms of the number of active companies in the distribution by counties, the capital city stands out as an atypical territorial unit in the remaining counties operating between 0.71 % - Giurgiu and 5 % - Cluj from the existing national firms;

7. As intensity Bucharest leads (67.9%), other counties being placed between: 11.1 % Botoşani and – 44.2 ‰ and - Cluj, fact which indicates strong differentiations of the economic development and business environment by counties;
8. By development regions there are also recorded major differences regarding the share of companies : Bucharest - Ilfov region aheads the national average of about 1.87 times, is 3.1 times the South-West region;
9. The share of large enterprises was reduced at national level, compared to the previous year, the Bucharest-Ilfov region recording nevertheless an increase compared to other regions;

The process of entrepreneurship polarisation was reinforced at national level in the regions Bucharest-Ilfov, West, North -West and Centre, to the detriment of less developed regions such as: North-East, South and South -West (64.3% in Bucharest-Ilfov, compared to 19.7% in South).

Romanian entrepreneurship holds the development potential and rapid increase, but for this to happen should young entrepreneurs should have an innovative thinking, to continuously improve and to assume the risk for their actions. Among Romanian regions, overall development gaps accumulated over time persist, which is reflected in the level of business environment and entrepreneurial level.

The evaluation of the indicators for SMEs reveals the existence of sharp disparities between the eight development regions Bucharest-Ilfov region standing out with a higher level of performance comparable to the average values of the European Union. The density of SMEs in Romania represents only 56 % of the European average, being of 23 compared with 41 inhabitants SMEs/1000 inhabitants in the EU27. In relation to the average in Romania there are large disparities in the 8 regions. Bucharest-Ilfov region is at a great distance from other regions, with the highest density of SMEs 50.23 IMM-uri/1000 inhabitants respectively, exceeding the European average. The densities of other regions is at half the value for Bucharest - Ilfov if the Northwest and Central regions or even third in the case of the North East (15.2 IMM-uri/1000 inhabitants).

It is observed the maintenance of the three levels of disparity between the eight regions of development, established in 2006, at the sizing of financial allocations from the European Regional Development Fund for investment in SMEs, these being present in all sectors of the economy, in a share more than 6 % in most regions.

However, some regions are characterised by the predominance of certain sectors, such in the case of Bucharest - Ilfov region, which accounts for 35.6 % of SMEs in services and the North West and Central regions with the best shaped industrial specialisation profile, respectively with shares of productive SMEs of 16.3 % and 15.9 %.

In terms of labour force at regional level, Bucharest-Ilfov region also distinguishes by the highest percentage of employees in SMEs (23%), share which is maintained since 2007 and it perfectly correlates with the maximum values of the other characteristic indicators, the number of firms or SMEs density . In the other regions the percentage of employees in SMEs are between a minimum of 6.7 % for the South West Oltenia region and a maximum of 13.9 % in the North-West region. The superiority of the performance of SMEs in the Bucharest - Ilfov is based on a high level of labor productivity, representing a rate of 160 % of the national average, the value being in

the same time comparable to the average recorded in the EU-27. This reflects the sound financial and economic development of the country capital, concentrating the activities in the field of services and less in the industrial sector where the labor productivity is usually lower.

The promotion of entrepreneurial talent and the development of entrepreneurial skills should be a permanent concern of the authorized institutions of the government authorities, the organisations promoting entrepreneurship and business support providers - by providing efficient financial and technical support, appropriate for the particularities of the Romanian business environment. The responsible authorities have expressed their concern for the support and development of entrepreneurship education in Romania by developing specific policies in order to improve the entrepreneurial skills of business owners and those of young potential entrepreneurs.

Currently, Romania needs to develop a new generation of entrepreneurs having characteristic skills such as responsibility, spontaneity, adaptability, foresight, initiative and managerial spirit, which allows them to identify and implement strategies appropriate for the market penetration and maintenance.

To adapt to the complex economic environment, an SME needs to develop an entrepreneurial management, the creation of innovative business capabilities and infusion of good transnational practices. Entrepreneur's education and former experiences can influence the performances of the enterprise.

In general, the entrepreneur's education, at least in its managerial side, is poorer than the manager's education in large enterprises both within market economies and those in transition. During the transition period, the negative motivations that were the priority in taking decisions to become entrepreneurs, led by the pioneering background in this activity and the lack of experience, to the emergence of a group of entrepreneurs having very low economic and managerial knowledge.

In many of these cases the market has sanctioned the entrepreneurs' mistakes, thus gradually creating, between them the awareness of the quality of the managerial act which must be based on a good knowledge of the market, on the type of business in which they operate as well as on their intrinsic power. Many entrepreneurs consider that the economic sense is enough to ensure success.

This can help business administration in the early stages, but with the increase of business complexity, managerial knowledge is strictly necessary, intervening the need of education in this area.

Creativity, talent in a particular area, spirit of action must be added to the educational elements.

Most Romanian entrepreneurs and business founders do not have previous experience in management or technical professions. Only 1.3% of the entrepreneurs have previous managerial experience, and 8.4 % have experience in technical fields. More than half of them (52.9 %) had been unskilled workers before they started to run their own business. From this point of view it is necessary to develop entrepreneurship programs through which prospective entrepreneurs in Romania can improve their skills in order to favorably implement business.

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