Regional Entrepreneurial Ecosystems in EU Markets: The Case of Romania

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Abstract: Entrepreneurial ecosystem (EE) research has been mainly focused on regional country performance and seems to have missed the historical and contextual background of each region (O'Connor, Stam, Sussan, and Audretsch, 2017). To fill this gap of knowledge, I include topical information on Romania's eight macro-administrative regions to identify their longitudinal roads towards regional entrepreneurial ecosystems. I also analyze data from the Global Entrepreneurship Monitor (GEM), the Entrepreneurship Barometer by Ernst & Young, the European Commission (EC) reports, and scholarly work. This investigation traces relevant historical events in Romania with a view to adding context to a broader understanding of the entrepreneurial agents' spirit and of the institutions that enable or hinder entrepreneurship development. The paper analyzes regional data of entrepreneurial activities, regulations, financing, coordinated support, and culture. Research results have managerial implications, highlighting opportunities and challenges entrepreneurs face in Romania and informing policy makers at local, regional, and national level.

Key words: Administrative Regions, EU, European Commission, Entrepreneurship Barometer, Global Entrepreneurship Monitor (GEM)

Introduction

ENTREPRENEURIAL ACTIVITIES HAVE BEEN BOOMING in the Romanian market over the past decade. According to the Romanian Entrepreneurship Barometer (2015), 99.6% of the total number of active companies in Romania are small and medium size enterprises (SMEs) that

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represent 44% of the total gross added value in the national economy. In Romania, a European Union (EU) country with a population below 20 million, the IT sector boasts a workforce of 64,000 ("L'écosystème…roumanie," 2016). The current literature points out and comments on the sustained progress of entrepreneurship in Romania, promotes events aimed at stimulating entrepreneurial initiative, and records compare and contrast analyses of entrepreneurship in Romania and in the other EU member countries. However, researchers would need to understand what distinguishes the Romanian entrepreneurial ecosystem from the EEs in other EU markets so that they may suggest practical managerial solutions to speed up the EE development in the country's eight macro-regions. This paper aims at filling this knowledge gap.

Romania's eight macro administrative regions are quite diverse, with abundant *albeit* unequal resources, have both exclusive and shared decision-making competencies, and are run by regional councils that manage a multiannual budget. A brief discussion on the eight regions highlights the value of local endowments and notes the differences in fostering local entrepreneurial initiatives. Each region's contribution to Romania's gross domestic product (GDP) reflects the strengths and weaknesses of the business environment, with Bucharest-Ilfov (the most developed macro-region) contributing 27.3% to the national GDP and with the South-West region counting only 7.5% in the national GDP in 2017 (CNSP 2018).

Background and Literature Review

The fifth wave of the European Union (EU) enlargement (2004-2007) was considered a success. On May 1, 2004, eight former communist countries and two Mediterranean nations joined the EU, enlarging it to 25 members and creating a 450 million people market. The EU considered the enlargement process an opportunity to promote stability on the continent and to foster the integration of the Union members. The ten new member countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia) were joined by Bulgaria and Romania in January 2007 (Marine, 2011). During the pre-accession period (1995-2006), Romania aligned its legislation with the EU body of law; it was during that period (July 2004) that the Parliament passed Law No. 346 on the establishment and development of small and medium size enterprises.

EU impact on the Romanian market cannot be overstated. The process of Romania's accession to the European Union (EU) helped the country stimulate its growth potential and gradually improve its economic performance in the 2000s and beyond. Here is a timeline of Romania's EU accession progress.

Table 1: Timetable of Romania's EU Accession

Date	Romania's EU Accession Progress
February 1993	Signing of the Agreement for Romania's Association to the European Union
February 1995	Coming into force of the EU Association Agreement
June 1995	Romania submits the official EU membership application
July 1997	The European Commission (EC) presents the Opinion on Romania's Official Application for Membership
November 1998	EC presents the first Report on Romania's progress towards the fulfillment of the accession criteria
December 1999	The European Council decides to open accession negotiations with Romania
February 2000	The start of the negotiation process of Romania's accession to the EU is officially launched at the Romania-EU Intergovernmental Conference
December 2002	The European Council in Copenhagen supports the objective of Romania's EU accession in 2007
December 2003	The European Council in Brussels establishes the schedule for Romania's EU accession
December 2004	The accession negotiations from a technical point of view conclude
April 2005	Signing in Luxemburg of the Accession Treaty to the European Union of Romania and Bulgaria
September 2006	EC issues its last Monitoring Report on Romania and Bulgaria, confirming January 1st, 2007, as the accession date for the two countries.
January 2007	Romania joins the EU

Source: European Commission

At the beginning of the accession process (February 2000), the GDP per capita (in PPP) was six times lower than in the EU markets. The challenges of complying with the EU *acquis communautaire* produced gradually positive results. The positive trend started in 2000, with 1.8% growth and $1,166.16 GDP per capita, and reached 6.9% GDP growth in 2007 when Romania joined the European Union and posted $10,136.47 GDP per capita in 2008 (Eurostat, 2008). In 2016, Romania's GDP was $187.806 billion, with a GDP/per capita of $9,486 (World Bank 2017). Although the World Bank's forecast for GDP growth in 2018 is 5.1%, the same source anticipates a decline to 4.1% by 2020 (World Bank 2017). As of 2016, the total EU spending in Romania was € 7.360 billion

($8.606 billion), with 4.47% of country's gross national income (GNI) representing total EU spending in Romania (EC 2018).

The EC 2017 Report on Romania highlights the country's sustained efforts to adjust its policies to the Single Market (EC 2018: 22) and to improve the framework conditions necessary to start new businesses and stimulate skilled workforce growth and access to finance. The 2016 Barometer of Romanian Entrepreneurship conducted by Ernst & Young and Raiffeisen Bank points out the increased confidence in the business environment in Romania, while mentioning that experienced entrepreneurs argue that the main obstacles to sustained entrepreneurial activities are the instability and bureaucracy of fiscal and legal framework, obstacles to financing, and unsatisfactory entrepreneurship education. Media reports on the SMEs in Romania find that most of the enterprises established in 2016 are microenterprises, of which 29.04% are in Bucharest-Ilfov, the country's most developed macro-region. Despite sustained economic progress, results could have been much better if the ruling parties had understood the objectives of European Union integration after the 2007 accession to the trade bloc. Vasile Pușcaș, Romania's chief negotiator for EU accession, opined that, absent a coherent economic post-accession policy, during the decade following Romania's accession to the EU, the entrepreneurs themselves "strived to transform the opportunities [offered by the EU market] into the reality of a better life" (Pușcaș 2017: 2).

An Overview of the Romanian Context

In 2018, Romania celebrates the centennial of the Great Union of the provinces of Transylvania, Banat, Bessarabia, and Bucovina with the Old Kingdom of Romania. The modern Romanian state is the result of the Great Union declared on December 1, 1918. With an accelerated industrialization process in the 1920s and the 1930s (boasting a leading European oil industry), and with the modernization of its infrastructure, Romania's capitalist economy was a notable regional player in the interwar period. We look at Romania through historical lens to understand the country's successes and failures after the developments of 1989 when, with the overthrow of the communist regime, the country engaged on the uphill road of democratic transformation and economic reform.

Inherited and circumstantial conditions created challenging road blocks in Romania's path towards a strong democracy based on a free market system. The events of 1989 allowed the country to start the process of dismantling the command economy system, to liberalize economic activity, and, most importantly, to try to create a stable legal and institutional framework needed to implement comprehensive reform programs. The rather rapid succession of moderate successes and failures was both facilitated and affected by the political cycle of power-grabbing competition among different political parties and political factions. A gradual rather than an aggressive approach to economic reform was one of the major reasons leading to sluggish macroeconomic indicators, uneven structural adjustments, porous privatizations, and poor corporate governance. Populist promises of economic growth failed to materialize; the political players, be they former communists wearing new hats or center-right coalitions, produced unsustainable economic policies.

Romania's historical political parties, the Liberal Party and the National Peasant Party, made significant but unsuccessful attempts after 1989 to regain political standing in the new environment. A crowded political scene with over 200 parties with opportunistic leaders raised huge obstacles to the implementation of coherent economic reforms. Successive governments ruled mostly by "emergency ordinances" catering to the ruling political party *du jour* and to its clientele. Between 1997 and 2000, 43% of the laws passed during that period consisted of 684 emergency ordinances (Saudet 2005). The path to democracy was fraught with intense political and, sometimes, bloody confrontations (1990) that left scarring dents in the country's social fabric. The recurrent changes in the country's formal institutions' structure and in the regulatory framework were not conducive to a smooth transition to the market economy system (Saudet 2005). In this context, the emerging entrepreneurs in the transition economy could hardly engage in reasonable planning activities. As Saudet (2005) argued in his lucid discussion on institutions, entrepreneurship, and resources, "entrepreneurship is not dependent on the resources in an economy. Rather the key is the quality of the institutions that permit the exploitation of resources and opportunities" (Saudet 2005: 12).

Notes on Romania's Economic and Business Environment

In their analysis of *Entrepreneurial Ecosystems: The Foundation of Place-based Renewal*, O'Connor et al. (2018) underscore the importance of "anchoring the point of departure" so that we may understand the dynamics of "place-based transitions and transformations" (O'Connor et al. 2018: 1). In Romania, certain aspects of the national culture and a volatile business environment may have had a strong negative impact that inhibited a steady development of sustainable entrepreneurial ecosystems. Between the two World Wars, Romania's economy became an important factor in the European and global markets as a key producer and exporter of oil, as well as an exporter of timber, coal, metals, and minerals. Romania was also a preferred East European target for foreign investors who owned over 80% of the economic facilities before World War II (Walters 1988). While the industrial base was quite strong, agriculture was in a dismal state although over 72% of the population depended on agriculture. Small entrepreneurs in urban areas that developed in the interwar period did not bring a significant contribution to the export focused economy.

After WWII, the communist regime did not allow private ownership and, with some exceptions (cobblers, seamstresses, mountain farms), private entrepreneurial endeavors were banned. After decades of command economy, most people were quite confused with the new concepts of *entrepreneur* and *entrepreneurship*; there were no models to emulate. The value system of the country's national culture includes a strong element of "honor and shame" (similar to other nations). Neither individuals nor organizations would want to experience failure that is associated with shame. In the 1990s, the prospect of failing in activities they did not fully understand prevented the young and the not-so-young alike to start on the entrepreneurial path and hindered the development of a strong group of entrepreneurs and the gradual formation of entrepreneurial ecosystems.

The transition to dynamic entrepreneurial activities that could be gradually creating entrepreneurial ecosystems in Romania has been uneven but has produced promising results. The European Commission (2017b) announced that the European Investment Fund (EIF) signed three new agreements aimed to facilitate access to financing for around 300 Romanian SMEs and startups. The €75 m ($87.7 m) intermediating lending to the European Investment Bank's (EIB) partner financing institutions in Romania aims at improving access of Romanian SMEs to EU financing. EIB's vice-president noted that "SMEs are the backbone of the Romanian economy when it comes to jobs and economic growth" ("Investment Boost in Romania… ," 2017, para. 6). EIF's € 50 m ($58 m) first bank loan for a Romanian commercial bank in Romania will finance innovative projects promoted by SMEs and startups (EIB, 2018). The EIF has also partnered with eight Romanian banks to provide SME initiative guarantees, thus opening financing access to over 4,000 SMEs and startups.

Foreign investors' increased interest in the Romanian market has contributed significantly to the country's economic growth. Although still at a low level compared with the other EU member countries, foreign direct investment (FDI) in Romania reached $5.6 billion in 2016, showing a 20% increase compared with 2015. Regarding the ease of doing business, Romania ranks 36th out of 190 economies, according to World Bank's 2017 Doing Business Report. The European Bank for Reconstruction and Development (EBRD), a major investor in the Romanian market, targets diverse sectors: banking and insurance, energy, wholesale and retail, construction and telecommunications. Evidence of EBRD's confidence in the Romanian market is the recently announced $18.5 million loan to one of the Romanian local banks to support SME development. As of 2017, the EBRD invested over $9.8 billion in over 415 projects in energy, financial institutions, industry, commerce, agribusiness, and infrastructure (EBRD 2018).

The European Commission (EC) uses the SME Performance Review as the main tool to assess the EU member countries' yearly progress in implementing the Small Business Act (SBA) launched in 2011. The SBA's main objective is to improve entrepreneurship in Europe, simplify the regulatory environment for SMEs, and eliminate barriers to SME development (EC 2018c). SBA's most recent fact-sheets for Romania indicate that Romanian SMEs' value added increased by 44.6% between 2012-2016, with an 86.6% increase in value added for micro firms. The 2017 report shows that, during 2012-2016, the SMEs in the information and communication sector posted a value-added increase of 65.6% and an employment growth of 12.3% (SBA Fact Sheet 2017). The accommodation and food service sector and transport and storage sector also posted significant value-added growth by 72.1% and 62.5% respectively. SME value-added in the subsector of postal and courier services grew by 80.6%. The EC report indicates a positive outlook for Romanian SMEs in non-financial sectors, anticipating a value-added growth of 16.5% for SMEs in all sectors but a modest 2.2% growth of SME employment for the same period (SBA Fact Sheet 2017).

Data

European Union reports, consultancy studies, the media, entrepreneurs, and government sources provide abundant information on the entrepreneurial activities in Romania over the past decade. This research investigates what factors have spurred the entrepreneurial initiatives in Romania's macro-regions and to what extent "the local context can have a significant impact on the entrepreneurship process" (O'Connor et al. 2018: 2).

Romania's Administrative Macro-regions

To understand contemporaneous developments (both success and failure) in Romania's evolving entrepreneurship, I review briefly the eight macro-regions, each including pockets of active or potential entrepreneurial activity: Bucharest – Ilfov, Center, North-East, North-Vest, South-East, South-Muntenia, South-West, West. Each of the eight regions includes between four to seven counties ("județe") of the 41 counties on Romania's map.

The **Bucharest-Ilfov Region**, located in the south of the country, is by far the most developed of the eight regions, with Bucharest the country's main economic, financial, and cultural center. Romania's capital offers an attractive business environment, a strong institutional network, a consolidated communication system, and abundant, highly educated skilled workforce. With strong higher education institutions and research infrastructure, over 50% of the total R&D expenditures are spent in the capital's public and private R&D institutions. In Bucharest-Ilfov, we find the largest volume of small and medium size enterprises and, according to the National Bank reports of 2016, the region attracts some 60% of the total FDI in Romania (National Bank of Romania and INS 2016). In Bucharest-Ilfov, we find diverse demographics where the local talent cooperate with a growing expatriate business community. In 2015, the GDP/per capita in this region was around $20,792 (INS 2016). This year (2018), the GDP/per capita in the Bucharest-Ilfov region is 136% higher than the average GDP/per capita in the European Union (Eurostat 2018).

The **South-East Region** is bordered by the Danube and the Black Sea, is the second largest of the eight regions, and has international borders with the Republic of Moldova, Ukraine, and Bulgaria. Uneven local conditions have created significant discrepancies among the six South-East counties. The ethnic diversity in South-East reflects the region's history and includes Greeks, Russians, Tartars, and Turks. The region's geographic location elevates its geopolitical and geostrategic importance both for the European Union and for NATO. The Port of Constanța is the largest port on the Black Sea and the fourth largest port in Europe, an important oil transport center, and a major a grain transport hub in the global wheat trade. After a significant decline in the 1990s, the South-East Region has been gradually developing its textile, wood, glass, and oil refinery industries, although sustained economic growth continues to be slow. In 2015, the GDP/per capita in this region was around $7,537 (INS 2016).

The **South-Muntenia Region** comprises seven counties and shares the southern border with Bulgaria. The Prahova county (with Ploiești, its main city) holds a top place in Romania's industrial production, while the region's southern counties are still facing development challenges as a result of the industrial restructuring of the 1990s. The chemical and petro-chemical machinery and products, the auto industry, machinery equipment and transport devices, construction materials, the textile and food industries bring a significant contribution to the region's GDP. Although the southern part of this region accounts for 80.2% of the country's arable land, the agricultural sector does not produce to its full potential and there continues to be a significant difference between the industrialized north of the region and the less developed south. The Danube and the southern part of the Carpathian

Mountains in the South-Muntenia Region account for about 33% of Romania's touristic potential (EC 2016). In 2015, the GDP/per capita in this region was around $7,537 (INS 2016).

The **South-West Region** (Oltenia), with six counties, boasts over 72% of Romania's hydroelectric production as it draws from the power of three major rivers: the Olt, the Jiu, and the Danube. This region shares borders with Bulgaria and Serbia, to the south and to the west respectively. Craiova is the major city in this region. Coal mine closings, the economic restructuring of the 1990s, and the economic and financial crisis of 2008 seriously affected the employment levels of the South-West, with lingering social and economic consequences. A high percentage of the urban population migrated to the rural areas to practice subsistence agriculture. This region is not a strong FDI attractor, with only 3% of the FDI inflow in 2013 (National Bank of Romania, 2014). Two industrial parks, five business incubators, and 26 research centers are encouraging factors likely to contribute to the region's gradual economic progress. Tourism has high potential for specialization featuring natural parks, mountain areas, mineral springs, and spas. In 2015, the GDP/per capita in this region was around $6,351 (INS 2016).

The **West Region** (Banat), with four counties, shares international borders with Hungary and Serbia to the west. Since 1997, Banat is also part of the Euro-region of the Danube, the Criș, and the Tisa rivers, along with three counties in Hungary and Voivodina, an autonomous province of Serbia. Workforce concentration in urban areas that represent over 63% of the region's territory and the multicultural diversity are key factors contributing to the significant, *albeit* uneven, economic progress. In some areas, the decline of the mining, steel, machine building, and metallurgical industries in the 1990s followed by unsuccessful restructuring programs generated destabilizing social distress. However, the favorable geographic position of the region with access to the three Pan-European transport corridors crossing Romania, the local natural resources, and the skilled workforce with diverse ethnic groups of Romanian, Hungarian, German, and Serbian origin have attracted a significant volume of foreign direct investment. This region has become the second fastest growing region after Bucharest, generating some 9.2% of the national GDP, according to 2015 data (EC 2018). Favorable economic conditions have also offered growth opportunities for entrepreneurial initiatives; the number of the SMEs in the West Region represents almost 10% of the total number of SMEs in Romania (EC 2018). In 2015, the GDP/per capita in this region was around $9,129 (INS 2016).

The **North-West Region** includes six counties covering 14.3% of the Romania's territory. This multi-ethnic region shares borders with Hungary to the West and with Ukraine to the north. Cluj-Napoca and Oradea are two of the major cities in this region. Diverse minority groups, such as Hungarians and

Germans, together with the Romanian majority, have created a dynamic labor market and a thriving economy featuring a strong Information and Communications Technologies (ITC) sector. A strong entrepreneurial sector featured over 74,000 SMEs in 2014, with a density of 25 SMEs/1,000 inhabitants. According to Eurostat (2017) data, the West Region ranks third among the eight Romanian development regions and contributes 11.4% of the national GDP. The economic recovery following the 2008 recession has been stronger in the large urban areas, while small towns have experienced rising unemployment rates. Despite a highly skilled workforce and considerable natural resources, the region has attracted only a moderate volume of FDI. In 2015, the GDP/per capita in this region was around $7,754 (INS 2016).

The six counties of the **Center Region** cover 14.31% of Romania's territory, with significant resources of natural gas, minerals (gold, silver, non-metals, salt), mineral springs, and forests. The region benefits from a diversified economy, a well-developed transport system, and skilled workforce. The historic traditions of the region's three ethnic nationalities (Romanians, Germans, and Hungarians) have contributed to the gradual development of a strong business environment, with a focus on industrial production, trade, and services. The Center Region's entrepreneurial activities date as far back as the 15th and 16th centuries around the cities of Brașov and Sibiu, that became important economic and trade centers. Closer to our time, the growing number of startups and small and medium size enterprises has been the direct result of long-standing tradition of the multicultural population of the region. Over 58,000 SMEs are spread throughout this region, with a concentration in the Brașov, Sibiu, and Mureș counties. The 11 industrial parks and four business incubators have contributed to sustained, *albeit* uneven, economic growth. The Center Region ranked second as an FDI attractor, accounting for 9% of the FDI inflow in 2015 (National Bank of Romania 2016). In 2015, the GDP/per capita in this region was around $8,216 (INS 2016).

The **North-East Region** comprises six counties and is home to 17.3% of Romania's population. The region shares the northern border with Ukraine and the eastern border with the Republic of Moldova. With a diversified and attractive geography, the North-East counties offer major attractions for tourism and have the highest population density after Bucharest. The region's potential has been underutilized; weak infrastructure and the constant migration of population towards more attractive zones have contributed to the uneven progress. The closings of old state enterprises in the chemical and petrochemical industries, in the light industry, machine building, and furniture have affected the whole region. Weak infrastructure, improvable public utilities, and the (surprising) decision to continue production in the *lohn* system have not allowed this region to develop its full potential. The unfavorable macroeconomic conditions seem to have provided good opportunities for entrepreneurial initiatives; SMEs and micro-enterprises represent an important segment of the region's economy and absorbed around 79.4% of the workforce in the early 2000s (EC 2012). Iași and Suceava are the main cities in the region. The stupendous geography of the North-East Region and the eight monasteries of the 15th-16th centuries, part of UNESCO's World Heritage, offer plenty of business opportunities for tourism, crafts, and services that could be successfully provided through entrepreneurial initiatives. In 2015, the GDP/per capita in this region was around $5,356 (INS 2016).

The Entrepreneurial Business Environment in Romania

In its Country Report on Romania, the European Commission (2017) points out the two-year upswing trend of the Romanian economy as a result of pro-cyclical fiscal policies that have spurred sustained domestic demand. Robust economic growth during 2016-2017 featured a stronger labor market and sustained wage growth. However, a widening deficit and foreseeable challenges in the banking system, along with frequent legislative changes may affect the country's financial stability in the near future, according to the European Commission (2017).

The World Bank underscores the direct strong link between political events in Romania and developments in the country's economy and mentions the government change in January 2018 when the governing coalition of the Social Democratic Party and the Liberal-Democratic Alliance (ALDE) appointed a new government to replace the previous seven-month cabinet. The new government's program seems focused on facilitating improved absorption of EU funds, on the pension system reform, and on tax reform; effective implementation of such programs has yet to materialize. The World Bank acknowledges the improvements of the macro-fiscal imbalances since 2008 but it, nevertheless, underscores the challenges of removing the structural obstacles to the economy. Concerns about ineffective governance, corruption, and weak administration continue to limit the country's competitive advantage (World Bank 2018).

Diverse sources underscore the strengths of Romania's emerging entrepreneurial activities such as specialized workforce, superior IT resources, improved perception of entrepreneurial initiatives, and a wide network of support organizations. Eurostat data have been consistently favorable highlighting positive trends in the Romanian business environment since 2010, although the country's economy has not fully recovered from the decade old global crisis. While, according to EC (2016), new enterprise formation accelerated (450,000 SMEs as of 2015), the survival rate of these new ventures has been volatile. According to European Commission data, survival rates of new enterprises peaked in 2011 only to decline abruptly in 2013. During 2014-

2016, the number of the small and medium size enterprises increased by 6 percent and added over 190,000 jobs, according to Eurostat.

Increased entrepreneurial activity has been stimulated by positive, although still timid, macroeconomic indicators. According to Eurostat data, in 2017, Romania posted the highest GDP growth among the EU countries, at 6.9%. Industrial production increased to 3.8 in December 2017 from -0.3 in January 2017; the unemployment rate declined to 4.6 in December 2017 from 5.2 in January 2017; GDP peaked at 2.4 in the second quarter of 2017, but it dropped to 0.6 in the third quarter of 2017, matching the GDP growth of the European Union for the same period (Eurostat 2017).

According to GEM's most recent data (2015), Romania has improved its rates on self-perceptions, entrepreneurial activity motivations, and impact, although they are still below the regional average. Fear of failure rate continued to be high in 2015 at 40.49, compared with the global average of 35.67 and the regional average of 39.12 (GEM 2015/2016). The high job creation expectation rate was at 39.80, compared with the regional average of 20.70 and the global average of 20.11 (GEM 2015/2016).

Increased investors' interest in Romania's entrepreneurs is also a measure of gradual success. In the first two quarters of 2017, investment in Romanian startups was three times higher than in the same period of 2016, increasing from $13.5 million to $47.3 million (Ceobanu 2017). The EC reports indicate that, in 2015, total investment in Romania reached 24.8% of GDP, above the EU average of 19.7%. However, the Commission is cautious in its assessment and notes that public investment continues to be hindered by management deficiencies, changing policies, and chronic difficulties in absorbing EU funds (EC 2016). The dynamics of the entrepreneurial activity is likely to morph into strong entrepreneurial ecosystems centered in the most developed urban hubs.

Entrepreneurial Legislation

In the uphill transition period from the post-WWII command economy to the free market economy that started in 1990, the reform of the legislative system has been a challenging and elusive goal. Successive Romanian administrations strived to promote, implement, and monitor effective legislative initiatives for startups, and small and medium size enterprises. After a series of public institutions tasked with creating an even playing field for SME development in Romania, we find now the Ministry for the Business Environment, Trade, and Entrepreneurship in charge of implementing SME legislation, together with the Agency for the Implementation of the Projects and Programs for Small and Medium Size Enterprises. During 2004 -2017, at least seven pieces of legislation and emergency ordinances targeted diverse objectives, such as to encourage the establishment and development of small and medium size enterprises; to encourage the establishment of new small and medium size enterprises; and to implement the Swiss-Romanian cooperation program (AIPPIMM 2017).

At the national level, starting with the Law No. 346 of 2004 on establishing small and medium size enterprises to the 2017 Law No. 112 on Emergency Decision to Foster the Establishment of New Small and Medium Size Enterprises, and the activity of the Department for the Business Environment, Trade and Entrepreneurship, we see sustained effort to support entrepreneurial initiatives. Startup Nation, a government program launched in 2017, provides startups $5,300 grants (in domestic currency) and plans to finance 10,000 startups annually. The program anticipates these startups will create 100,000 jobs in the next four years and the government will be able to recuperate 30% of the program cost through taxes.

These legislative acts / programs are complemented with wordy rules, regulations, and amendments that create a somewhat blurry environment likely to confuse rather than stimulate dynamic entrepreneurial activities. Low administrative capacity, fragmentation, frequent legislative, staff and institutional changes, lack of human resources with adequate expertise have hindered the smooth effective implementation of most legislative initiatives (Rio Country Report 2016).

Romanian entrepreneurs also align with the Small Business Act for Europe of 2011 and comply with all the conditionalities associated with European Union funding. The Entrepreneurship 2020 Action Plan's main objective is to remove obstacles to dynamic entrepreneurial activities and to improve the entrepreneurial culture throughout the EU. An SME envoy appointed by the national government is responsible for the implementation of the action plan (EC 2018).

What has been the Romanian entrepreneurs' response the challenging legislative framework? According to EY Entrepreneurship Barometer of 2015, 49% of the 386 entrepreneurs surveyed think that fiscal unpredictability, the confusing maize of legislation and regulations governing taxes create the most significant obstacles for the entrepreneurs who want to start and grow a private business in Romania (EY 2015). The same percentage applies when entrepreneurs critique the deteriorating fiscal policy, while 45% of the entrepreneurs anticipate that lower taxes and improved fiscal facilitates will have a strong positive impact on entrepreneurial activity (EY, 2015). Romanian entrepreneurs agree that lack of fiscal predictability, lack of qualified human resources, the local and national administrations' perceived lack of interest for entrepreneurs, and a lack of entrepreneurial vision in public policies continue to create significant hurdles. In this context, according to the EY Barometer (2015), 65% of the Romanian entrepreneurs opine that improved tax regulations and bureaucracy streamlining will have the strongest positive impact on the entrepreneurial environment in Romania. Romanian entrepreneurs ask for lower VAT levels, an improved tax collection system, fiscal facilities for startups, a stable fiscal code, a simplification of SME accounting rules, a reduction of number of fiscal audits, an effective entrepreneurship law, coherent normative acts, and a functioning e-government system.

Most entrepreneurs (37%) have gained confidence in the coordinated support offered by local and foreign entrepreneurial organizations, such as entrepreneurial clubs and associations, and entrepreneurial networks. With the notable exception of the IT sector, entrepreneurial ecosystems are still in the early development stage; most entrepreneurs speak about the strong nation-wide entrepreneurial support of business incubators and accelerators present in all the administrative macro-regions (Barometer 2017). As the EU markets recovered from the 2008 global recession, most member states saw SME value added increase; the 5% increase in Romania in 2014 was higher than the EU average. However, only 3% of Romania's startups and scale-ups were high growth firms during 2016-2017, compared with the 9.2% average of the EU-28 business economy (EC 2017). According to Eurostat data (2017), only the ITC sector accounts consistently for increased enterprise births in Romania.

Financing Entrepreneurial Activities

A considerable percentage of Romania's entrepreneurs (82%) consider access to finance a difficult or a very difficult process. Government programs, European Union financing through programs such as Horizon 2020, COSME, Creative Europe, Erasmus, Social Change and Innovation, the European Structural and Investment Funds are some of the financing sources, along with EBRD and EIB noted earlier. In 2015, the Bucharest Stock Exchange established AeRO, a special exchange aimed at financing startups and SMEs. Crowd-financing, angel investors, and microfinance are financing options for entrepreneurs with limited access to traditional bank services. However, although entrepreneurs have the possibility to use quite a strong funding ecosystem, access to finance continues to be a problem.

European Union provides financing for SME initiatives in all sectors of activity (EU Finance 2018). While the share of micro-enterprises is 5.1% lower than the EU average, the share of small and medium size enterprises is above the EU average by 4.2% and 0.8% respectively (EC, 2016). Although in 2015 the SME sector provided 67.5% of employment in the private sector and accounted for 50% of the value added, the SME contribution was 7% below the EU average (EC, 2016). However, GEM's job creation projections include Romania among the countries with the highest rates of medium-to-high growth entrepreneurs (GEM 2015/2016).

According to the Romanian Executive Agency for Higher Education, Research, Development and Innovation Funding (UEFISCDI), most funds do not cover all the stages of the innovation process of a startup. High cost of debt financing and collateral guarantees are also significant obstacles quite difficult to overcome. Romanian bankers note that local banks will make individual assessments and decide to support only projects with "reasonable existing or future cash flow" (Oțel, personal communication May 2017). Since it takes 2-3 years for startups to show sustainable cash flow, access of startups to bank financing is lower than mature companies' access. Entrepreneurs themselves seem to share part of the blame; they are reluctant to provide collaterals or to comply with bank conditions related to future financial indicators. EC reports indicate that, in 2016, over 71% of SMEs were financing their activities from their own sources and 81% of the surveyed companies had no plans to access European Structural Funds given the low rate of success in obtaining funding approval (EC 2016).

Crowd-financing has also become an attractive financing source. The Startarium platform launched a crowdfunding feature inviting ecosystem builders (ImpactHub) and financial corporations (ING Bank) to join efforts to stimulate entrepreneurship (Ceobanu, 2017). Local and foreign investors are now attracted to the Romanian opportunities. Catalyst Romania, Gecad Ventures, and 3TS Capital Partners are just some of the equity investors that stimulate a new wave of startups entering the fintech, healthcare, agritech, consumer apps, big data, HR, and artificial intelligence industries (Ceobanu 2017).

Analysis

The significant discrepancies between the GDP/per capita of the Bucharest-Ilfov region and most of the other seven administrative regions, as well as among the regions themselves, speak for significant imbalances at the national level, and about the gradual formation of stronger economic centers in the west of the country. While Bucharest's GDP/per capita is higher than the rest of the country, the North-East regional is one of the least developed regions in the European Union. Even a cursory review of the eight regions show quite an unequal access to infrastructure (be it transport, education, or health) that becomes a major obstacle to the potential development of that region and to the emergence of entrepreneurial initiatives.

Analyses and reports focus mainly on countries/regions with already established EEs and less attention is given to countries like Romania, where ecosystems are still in the developing stage. Romania's entrepreneurial activity concentrates in large urban areas (Bucharest, Brasov, Cluj-Napoca, Constanta, Sibiu, Iași, Oradea, Târgu Mureș, and Timișoara) in the eight administrative regions. A 2014 Forbes report spoke about Europe's hidden entrepreneurial hotbed and highlighted the Romania's "wealth of technical talent" (Coleman 2014, para. 6). However, when we attempt to apply the definition of entrepreneurial ecosystems, we have a hard time identifying sustained activities across most of the regions that meet the entrepreneurial ecosystem criteria. We do find, however, numerous examples of related concepts, such as incubators, clusters, hubs, and business accelerator centers. Diverse sources underscore some of the strengths of Romania's entrepreneurial activities such as specialized workforce, superior IT resources, improved perception of entrepreneurial initiatives, and a wide network of support organizations.

The 2017 EY Barometer of Romania's startups describes the Romanian entrepreneur as young and enthusiastic, willing to work hard, and to assume risks to reach the company's goals. Over 78% of the respondents started their business with personal funds and almost 30% are seeking more efficient financing from public sources. Most of the young entrepreneurs feel that failure is penalized by society and think that taxes and regulations, along with the activity of the public institutions have the strongest impact on the entrepreneurship development in Romania. The list of obstacles to successful activities features prominently insufficient entrepreneurial education and access to finance. The young entrepreneurs feel that mentorships and constant interaction with experienced practitioners will add value to their activity. Over the past decade, Romania's entrepreneurs have developed an improved attitude towards entrepreneurial activities, have enhanced their abilities to manage their companies, and have set high bars for successful business aspirations (EY Barometer 2017).

Despite these positive attitudes, abilities, and aspirations, my endeavor to identify major entrepreneurial ecosystems in Romania's eight administrative regions has not produced the expected results. The 2016 EC's Background Report on Romania provides insight into some of the entrepreneurial environment weaknesses that are deemed to be significant obstacles to the creation of ecosystems: (1) low birth rate of new firms; (2) low survival rate of startups in the employer category; with higher survival rate only in individual entrepreneur's sector (to over 80% from 40%); (3) low innovation performance that deteriorated from 50% of the EU average to 34.4% in 2015; (4) low level of high-growth enterprises (the 24th place among EU member countries) (EC 2016).

The strengths of Romania's entrepreneurial environment, as highlighted by the European Innovation Scoreboard, the World Economic Forum Competitiveness Report, and by the World Bank Doing Business could offset the weaknesses and move the entrepreneurial activities in the right direction. Youth and upper-secondary education, exports of medium and high-tech products, growing employment in high-tech companies and the 53rd position in the list of efficiency driven economies are strong points. These positive signals are completed with the data in the 2016 Startup Nation Scoreboard that ranks Romania on the first place for skills and education, on the second place for institutional framework, and on the fifth place for access to talent.

Discussion

This incomplete analysis raises several intriguing questions. Are there major structural dysfunctions that have created strong obstacles to a sustainable development of entrepreneurial ecosystems in Romania over the past three decades? Has the national legislation created bureaucratic obstacles that delayed timely progress? Should local administrations have provided incentives and sustained support for entrepreneurial initiatives in the lagging macro-regions? Schillo et al. (2016) underscored "the importance of institutional conditions in fostering entrepreneurship" (2016: 619) and discussed the significance of developing the concept of entrepreneurial readiness by considering the symbiotic relationship among the entrepreneur's skills, fear of failure, social connectedness, and opportunity perception (2016: 619).

According to the survey "The Barometer of Digitization 2018," (Badea: 2018), 59% of the companies in Romania concede that lack of "knowledge and expertise for top managers to assess and develop a model digital business" (para. 1) is a major obstacle to digital transformation of companies, and, in consequence, to improved business performance. Proactive local administrations in Romania (in the eight macro-regions), along with entrepreneurship associations, and NGOs, could become the conduit facilitating knowledge transfer from the companies that have built their business strategy on digitalization to those organizations that are either unaware of the digitalization business benefits or are facing financial constraints. Some of the companies that participated in Innoteque 2106 could take the lead and, building on the EC Support in Lagging Regions (2018), reach out to the North-East region in Romania, assess the local conditions, and develop practical tools to improve the local companies' performance.

Local and national decision makers need to pay attention to the entrepreneurs' input. Support for a more active business environment to increase pressure on the political scene to support entrepreneurship and stimulate initiatives, creating an interactive platform to share success stories, failures, and lessons learned, and facilitating competition are just some of the entrepreneurs' opinions recorded in EY's The Entrepreneurs' Book (2015). Isenberg (2011) discussed the six general domains of the entrepreneurship ecosystem: "conducive culture, enabling policies, and leadership, availability of appropriate finance, quality human capital, venture-friendly markets for products, and a range of institutional and infrastructural supports" (Isenberg 2011: para. 2). Practitioners and official decision makers in Romania need to embrace the idea that each entrepreneurship ecosystem is unique (Isenberg: 2011) and use the six general domains as a blueprint to foster local entrepreneurial activities.

Conclusions and Recommendations

Our endeavor to understand the evolution of Romania's entrepreneurial environment has identified positive and negative trends recorded by the Global Entrepreneurship Monitor, Eurostat, European Commission, Eurostat, the World Bank, and a host of local and European sources. The national legislation, with subsequent amendments, seems to have constantly supported and encouraged the entrepreneurial initiatives. Emergency ordinances proclaim the importance of "establishing, organizing, and empowering agencies for small and medium size enterprises to stimulate investment and promote exports" ("Ordonanța de urgență nr. 43/2017… ," 2017: para. 1). However, entrepreneurs note the continued challenges to effective implementation.

The European Union Small Business Act of 2008, as reviewed in 2011, emphasized the need for the EU member states to intensify their efforts to promote entrepreneurship and support entrepreneurial initiatives. The Action Plan for the Development of Entrepreneurship in the EU in 2020 aims at boosting entrepreneurship in all EU member countries. OECD and Eurostat produced the Entrepreneurship Indicators Programme aimed at developing complex measurements of entrepreneurship. Financing for startups and SMEs continues to be challenging and is considered a major obstacle to sustained entrepreneurial activities. An EC report indicates that, according to an EU-wide survey published in late 2016, access to finance is the most important concern for 9% of EU SMEs (EC 2017). This percentage is much higher in Romania, where, according to the EY Entrepreneurship Barometer (2015), 88% of entrepreneurs indicate that access to funding is difficult or very difficult; still, the EC indicates in its 2016 Background Report on Romania that, with a score of 6.1 (on a scale of 1 to 10), "access to finance is not considered the most important problem facing Romanian SMEs" (EY 2015: 18). The EC report points out that an increasing number of Romanian institutions and organizations, along with banking sources, crowdfunding, VC funds, private equity, and European funds are viable financing sources. However, since these sources will not cover all the stages in the startup development, and debt financing is expensive and requires significant collateral guarantees, access to financing does remain a significant obstacle.

Culture, mentors, and support systems play a critical role toward creating and consolidating successful entrepreneurial ecosystems. The successful example in the IT&C sector could be gradually replicated in some of the industries of the administrative regions. We note significant positive developments: widespread improved perception of entrepreneurial activities, the growing number of SME success stories, promising partnerships between large companies and local entrepreneurs (see Orange and Innovation Labs project), yearly entrepreneurship events, mentorship programs, and the sustained involvement of universities in entrepreneurial education.

To see how these positive developments could create a significant momentum for entrepreneurial ecosystems throughout Romania, we recall O'Connor et al. (2017) focus on the importance of place in entrepreneurial activities. How could local authorities, NGOs, entrepreneurial associations, and financing sources work together to develop a competitive advantage culture and improve on the data published in the Global Competitiveness Index (see Figure 2 below)? Rather than trying to imitate existing models, the sub-divisions of the macro-regions (or of any other administrative structure) need to promote and support value creation at the local level. When taxes and administrative barriers create challenges for the entrepreneurial activities, the local decision makers could promote incentives to offset these barriers. A sustained focus on the World Economic Forum's (WEF) basic requirements, efficiency enhancers, and the innovation and sophistication factors could gradually create a stimulating entrepreneurial environment that will improve Romania's national ranks and scores.

Table 2 Romania and WEF's The Global Competitive Index 2017-2018 Rankings

	Romania		
		Rank	Score [(1-7)]
Basic requirements		72	4.57
	Institutions	86	3.70
	Infrastructure	83	3.82
	Macroeconomic	38	5.25

	environment		
	Health and education	92	5.49
Efficiency enhancers		58	4.28
	Higher education and training	70	4.41
	Goods market efficiency	92	4.14
	Labor market efficiency	89	3.97
	Financial market development	88	3.74
	Technological readiness	51	4.78
	Market size	41	4.61
Innovation and sophistication factors		107	3.28
	Business sophistication	116	3.47
	Innovation	96	3.08

Source: www.wef.org

Local coherent efforts should enhance the measures taken at the national level to improve the physical infrastructure, to stimulate investments and create incentive packages for local and foreign investors, to ensure fiscal reform coherence (AmCham Romania 2018), to take advantage of local opportunities and encourage innovation, and to engage local entrepreneurs in the process of developing entrepreneurial policy. Initiatives to balance the map of business incubators and accelerators through the eight macro-regions will have a significant positive impact on entrepreneurship. At the local level, in six regions, the county authorities, along with profit and non-profit organizations, should learn from the experience of the 15 incubators/accelerators in Bucharest and the nine accelerators in Cluj-Napoca. The accelerators' stimulating business environment will also address the fear of failure that is still a strong obstacle to developing entrepreneurial initiatives, with 26 % of the respondents in the EY 2017 Startups Barometer indicating that business failure is perceived as a career failure difficult to recover from (EY 2017).

Harvesting the lessons learned and opinions formulated at annual events will create a rich database of actionable recommendations. Innoteque 2016 focused on the IT&C sector but their substantive recommendations could be adapted to apply to other industries. The practitioners gathered in Cluj-Napoca suggested it is necessary to develop a national platform aggregating public data for current and past projects, to stimulate a political consensus on a long-term vision for innovation-based entrepreneurship in Romania, to create a central simplified flexible funding structure, to strengthen multidisciplinary cooperation through public-private partnerships, and to create a streamlined process for long-term integration of foreign researchers in public and private facilities (Innoteque 2016). Equally important are initiatives to nurture a failure-is-part-of-the-process entrepreneurial mentality, to create a framework for increasing technology transfers from research institutes and universities to the market, and to increase awareness of IP regulations at national, European, and international level (Innoteque 2016).

Both the public and the private sector need to pool resources and human capital to develop microfinance services for startups so that these services may have a direct economic and social impact. Entrepreneurs themselves need to develop the awareness that, to be funded, they have to accept the financing source conditionalities. GEM (2015) includes Romania, an efficiency-driven country, in the cluster of high-ambition economies, along with China, Japan, Israel, and the US. Romania's entrepreneurs and policy makers need to raise awareness of the important growth and job creation role of entrepreneurs and should stimulate cross-border cooperation of startup ecosystems in the EU to benefit from their neighbors' experience. Building on the improved perception of entrepreneurship, acknowledging success at national and local level, encouraging creative experimentation, and designing policies to build and consolidate an entrepreneurial culture will further contribute to developing sustainable entrepreneurial ecosystems in Romania's industries.

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