

## THE ROLE OF ENTREPRENEURSHIP AND THE BUSINESS ENVIRONMENT IN SUPPORT OF SUSTAINABLE DEVELOPMENT

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**Abstract:** Starting from the fact that the economic development model is centered on the small and medium-sized enterprise, the paper aims to present the role of the business environment and the entrepreneurial spirit at national and European level in support of sustainable development of the EU's effort to support entrepreneurship initiatives and the competitiveness of SMEs, the organizational framework of their development in the vision of the EU and Romania, initiatives aimed at facilitating access to finance for SMEs and the development of youth entrepreneurship through universities. It will consider and formulate proposals to increase the contribution of SMEs to promote sustainable development, having as a starting point matters resulted from official sources such as EUROSTAT, The National Institute of Statistics, White Charter of the National Council of Private Small and Medium Enterprises in Romania.

**Keywords:** SME, business environment, entrepreneurship, entrepreneurial university

**JEL Classification:** A11, A23, B22.

### 1. The organizational framework for the development of SMEs in the European Union vision

SMEs have an important place in the EU vision as it supports the small and medium-sized enterprise as a central element of the economic development model due to the following arguments found in the literature:

- the ability of SMEs to stimulate competition and develop entrepreneurship;
- productive flexibility of SMEs. There are studies showing that the flexibility of enterprises by size category varies inversely with the size of the enterprise;
- the significant contribution of SMEs to increasing employment due to the reduced costs associated with job creation.

The EU's approach to business development is marked by several stages. Thus, the support of the SME sector within the EU was based on Article 157 of the Treaty of Establishment of the European Community (1957), which stipulated that the Community and the Member States would aim to ensure "an environment favorable to enterprise and enterprise development throughout the Community and, in particular to small and medium-sized enterprises. A program of priority actions supporting the European business environment was established for the period 1994-1999 and the Lisbon Strategy of 2000 set the key objective of transforming the EU by 2010 into a knowledge-based, competitive, dynamic growth economy, with more jobs and greater social cohesion. Starting from the Lisbon Strategy, in June 2000, the European Council adopted the European Charter for Small Enterprises which facilitated the entry into force in December 2000 of *The Community Enterprise and Entrepreneurship Program for the period 2001-2005*, in particular for small and medium-sized enterprises in order to promote entrepreneurship and business development. In the Recommendation of the European Commission 2003/361 / EC the definition of SMEs at EU level is foreseen. In June 2005, the Small Business Act (SBA) was published to recognize the central role of SMEs in the EU economy, namely to contribute to the process of economic and social cohesion and to support innovation. The Small Business Act promoted the "think small" principle in order to support entrepreneurship as an instrument of economic development.

Among the measures adopted in the EU aimed at supporting entrepreneurial initiatives and increasing the competitiveness of SMEs were: the entry into force in 2007 of the Competitiveness and Innovation Framework Program 2007-2013, the development in 2005-2011 of the financial system of the EU member states meant to facilitate the access of small and medium enterprises to financing. The 5 Structural Funds and European Investment Funds have as areas the economic competitiveness increase by the development of the business environment for the 2014-2020 period through Priority Axis 2 improving the competitiveness of small and medium enterprises within the European Regional Development Fund ERDF which addresses several key priority areas, including “support for SMEs”.

The main European initiatives for sustaining the financing of business environment are:

- The Communication An action plan to improve access to finance for SMEs recognises that Europe’s economic success depends largely on the growth of SMEs but that difficulty in accessing finance is the main obstacle to their growth.
- The 2014-2020 programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) will make it easier for SMEs to access loans and equity finance.
- The 2007-2013 Competitiveness and Innovation framework Programme (CIP) financial instruments helped SMEs raise equity and debt financing.
- COSME financial instruments will operate in conjunction with those of the Horizon 2020 Framework Programme for Research and Innovation: InnovFin – EU Finance for Innovators
- The SME Instrument of the Horizon 2020 Framework Programme for Research and Innovation offers funding and support for innovation projects that help SMEs grow and expand their activities into other countries.
- ERDF - the European Regional Development Fund aims to strengthen economic and social cohesion within the EU by correcting existing imbalances between its regions. It focuses its investments on key areas, namely innovation and research, digital agenda, support for SMEs, the low-carbon economy.
- The European Social Fund allocates important amounts for the development of human capital with an emphasis on the thematic objectives of cohesion policy: jobs for young people, supporting human resource mobility, promoting social inclusion and combating poverty, investing in education, skills training and lifelong learning and strengthening institutional capacity and the efficiency of public administration.

Under the current conditions, the university has an important mission in terms of developing innovative and entrepreneurial character in the sense that employees and students are encouraged to show entrepreneurial and innovation spirit and creativity in research, teaching. The University can have an entrepreneurial component through the way of building the organizational capacity, through resource management, through the involvement of stakeholders in administrative work, leadership, through the way of supporting the synergy between teaching, research and social involvement, through support for start-ups, through the exchange of experience and information to improve engagement with market firms.

The tool by the European Commission in 2018 through the General Direction for Education and Culture in collaboration with the OECD-LEED Forum and with the support of an independent expert group is called HEInnovate. This tool has been applied to over 450 universities at European level, of which 26 universities in Romania. This instrument aims to innovate and increase the visibility of entrepreneurship education in higher

education. Higher education institutions are assisted in identifying priorities and planning actions in three key areas: entrepreneurial teaching and learning, entrepreneurs training and support and knowledge sharing and collaboration.

Another tool of the European Commission is the Erasmus for Young Entrepreneurs Program aimed at informing the participants about the many opportunities offered by the common market as well as ways to overcome the market / business barriers. This helps aspiring European entrepreneurs to develop the skills needed to start and / or successfully run a small business in Europe. New entrepreneurs meet and exchange knowledge and business ideas with an experienced entrepreneur with whom they do an internship and collaborate for a period of 1 to 6 months. The exchange is partly funded by the European Commission.

## **2. Characterization of the Romanian business environment**

According to the European Commission Country Report (2018), the business environment in Romania has deteriorated. Romania dropped 9 steps in World Bank Doing Business 2018 to 45th place (World Bank, 2017a), and in its Global Competitiveness Report it dropped to 68th place (World Economic Forum, 2017). The economic growth is sustained by domestic demand, by private consumption. Inflation will affect actual disposable income and the private consumption is still the main driver of growth. The contribution of investment to GDP growth has been largely modest in recent years. The unemployment rate is 4.9%, the lowest level for more than 20 years.

Innovation and Entrepreneurship are key pillars of the economic growth strategy, as the study shows that 40% of European employers say they do not find people with the right skills to enable companies to be innovative and develop.

The results are poor in terms of governance, skills, infrastructure, health and education. The time required to start a business varies between 12 days and 25 days. The 3.3-year insolvency case has remained stable since 2008, being one of the longest in the EU (The European Commission, 2017e). Further measures are needed to encourage SME entrepreneurship initiatives through greater capitalization, simplification of the insolvency framework and financing sources supported by EU financial instruments (EIB). SMEs rely heavily on the banking system. The increase in the number of companies is slowed by the lack of clear legislation, the lack of qualified staff and the low level of innovation. Entrepreneurs do not have access to business mentoring and school curricula are not tailored to the needs of future entrepreneurs.

Romania is a modest innovator with results below the EU average. Business investment in R & D is modest although the government has adopted in 2016 measures to stimulate private R & D investment by exempting income tax on certain R & D activities and employees in newly established businesses with main object of activity: software development (CE, 2017a). The degree of digitization of the economy is low, although we have the highest rate of penetration of high-speed broadband in the EU (fixed and 4G). The digital competences of the population as a whole are among the lowest in the EU (29% of Romanians have only basic digital competences - Digital Economy and Social Index, 2018). There is the regional development plan for 2014-2020 and the Scoreboard of the Cluster Observatory for Western Romania that identifies ICT as one of the most relevant generic technologies essential for the Western Region. The Regional Intelligence Specialization Strategy (RIS3) aims to improve the research – development – innovation capacity of SMEs in all aspects and to establish 6 priority sectors where the region has a

competitive advantage (automobiles, ICT, agro-food industry, textiles, construction and tourism). Some interesting business opportunities for SMEs are large data volumes and 3D printing.

Regarding the labor market, the report highlights the fact that labor supply and skills do not keep up with the changing needs of the economy. Aging population, limited internal labor mobility, continuing emigration are obstacles in ensuring economic growth. The labor market participation rate is below that of the EU, especially for women, elderly people, Roma, young people, people in rural areas. There is a lack of middle and high level staff in the engineering, machinery, information technology and services sectors. In 2016, 72% of employees faced difficulties in filling vacant posts. The rate of young people who are not enrolled and who do not have any NEET training or training program is high. NEETs are inactive workers. They could access the Youth Guarantee programs under the EU initiative "Jobs for Young People". Vocational training is not prioritized and is not adapted to the needs of the labor market. Education and training are not sufficiently aligned with the needs of the labor market. Public spending on education is among the lowest in the EU at all levels of learning. The tertiary education graduation rate is one of the smallest in the EU (25,6% in Romania versus 39,1% in UE-28). The graduation rate in rural areas is 8 times lower than in large cities. The quality and relevance of the education and training for the labor market remain largely insufficient. Universities face problems in attracting and retaining students in education systems in the context of diversifying the abroad supply, but also in the interest of students to engage immediately after high school or during the faculty. The employment rate of young graduates has fallen by 7% in the last 3 years. This is why universities should encourage students to get orientated also to entrepreneurial domain.

According to the conclusions of the White Paper on SMEs in Romania 2017, survey conducted by the National Council of Small and Medium Private Enterprises from Romania – NCSMPE on a representative sample of 826 entrepreneurs, the main difficulties in the activities of SMEs in Romania are: unfair competition, bureaucracy, falling domestic demand, excessive taxation, rising wage costs, excessive controls. Between 2010 and 2017, the economic environment was perceived by Romanian entrepreneurs more and more as a favorable business environment. (the perceived environmentally friendly business environment grew from 3.79% in 2010 to 26.63% in 2017).

According to data provided by INS, at the end of 2016, in the industrial sector, small and medium enterprises accounted for 99% of all enterprises. The number of small and medium - sized enterprises has decreased from 176.033 in 2014 to 169.523 in 2016. SMEs held 50.1% of the employed persons and accounted for 36.7% of total turnover, 46.4% of total net investment. The structure of financing sources for SMEs covered 91.9% own sources; 5.6 % domestic credits; 1.2% external credits; 0.1% state budget and local budgets; foreign capital 0.2% and other sources 1.0%. Gross value added at factor cost was obtained in 2016 by 33.4% in small and medium-sized enterprises. Gross value added per employee, *apparent productivity*, during 2014-2016 registered lower levels in small and medium enterprises than in all enterprises. The gross result of the exercise (profit) recorded by 2016 by small and medium-sized enterprises was 24%. At the level of the analyzed period, a relatively linear evolution of all economic and financial indicators is observed.

**Table no. 1. Evolution of SME contribution to the main economic and financial indicators for 2014-2016 in industry (%)**

Indicators	2014	2015	2016
Number of enterprises	99	99	99
Average number of employees	80	79	78
Turnover	35	36	36
Production of the exercise	34	33	35
Direct exports	17	17	17
Gross value added at cost of factors	32	31	33
Staff costs	34	35	37
Gross operating surplus	29	27	27
The gross result of the exercise	5	17	24
Net investments made	42	39	46

Source: Authors processing after Elena Mihaela Iagăr (coord) - Small and Medium Enterprises in the Romanian Economy, year 2016 INS, 2018, p.13.

In the construction sector, at the end of 2016 there were 49,717 enterprises, of which 99% were small and medium enterprises. Of the total number of staff at the end of 2016, small and medium-sized enterprises accounted for 86.4%. In the small and medium enterprises, 81.8% of the total turnover was achieved. In the total of net investments made in 2016, small and medium-sized enterprises accounted for 79.8%. For SMEs, the funding structure comprises 89.2% of its own sources; 5.8% domestic credits; 0.1% external credits; 4.2% state budget and local budgets; other sources 0.7%. Gross value added per employee, apparent productivity, between 2015-2016 has seen higher levels in small and medium-sized enterprises than in all enterprises.

**Table no. 2. Evolution of the SME contribution to the main economic and financial indicators in the 2014-2016 period in construction (%)**

Indicators	2014	2015	2016
Number of enterprises	99	99	99
Average number of employees	85	85	85
Turnover	82	81	81
Production of the exercise	82	81	80
Direct exports	56	68	50
Gross value added at cost of factors	74	86	87
Staff costs	74	75	76
Gross operating surplus	74	102	101
The gross result of the exercise	97	89	96
Net investments made	52	60	79

Source: Editing authors after Elena Mihaela Iagăr (coord)- Small and Medium Enterprises in the Romanian Economy, year 2016 INS, 2018, p.87.

During the analyzed period there is an evolution with important differences in the gross value added indicators at the cost of the factors and the net investments made, the remainder of the indicators having a relatively linear evolution.

In the year 2016 in trade, 99.9% of all enterprises were small and medium enterprises, 78.3% of the personnel work in the SME and 69.5% of the total turnover. In total net investments made in 2016, small and medium-sized enterprises accounted for 70.5%. For SMEs, the structure of funding sources comprises 86.9% of its own sources; 8.0% domestic credits; 0.1% external credits; 0.1% state and local budget; 0.1% foreign capital and 4.8% other sources. Gross value added at factor cost was obtained in the proportion of 70.0% (44581 million lei) in small and medium enterprises. Gross value

added per employee, apparent productivity, was lower for SMEs than for total enterprises over 2014-2016.

**Table no. 3. Evolution of SME contribution to the main economic and financial indicators for 2014-2016 in trade (%)**

Indicators	2014	2015	2016
Number of enterprises	99	99	99
Average number of employees	80	79	78
Turnover	70	70	69
Production of the exercise	70	69	67
Direct exports	77	79	83
Gross value added at cost of factors	72	70	70
Staff costs	68	69	68
Gross operating surplus	75	71	71
The gross result of the exercise	74	76	72
Net investments made	72	74	70

Source: Editing authors after Elena Mihaela Iagăr (coord)- Small and Medium Enterprises in the Romanian Economy, year 2016 INS, 2018, p.97.

In the service sector, in the year 2016 there were 226729 small and medium-sized enterprises and 530 large enterprises. Of the total of 227259 enterprises, 99.8% were small and medium-sized enterprises, 68.3% of the employed persons were working in SMEs. In the small and medium enterprises, 69.2% of the total turnover was achieved. In the total net investments made in 2016, small and medium-sized enterprises accounted for 73.7%. For SMEs, the funding structure comprises 90.7% of its own sources; 6.0% domestic credits; 0.4% external credits; 0.6% state budget and local budgets; 0.6% foreign capital and other sources 1.7%. Gross value added per employee, apparent productivity, over the period 2014-2016, registered lower levels in SMEs than on total enterprises. The gross result of the exercise in 2016 was achieved in the proportion of 76% in small and medium-sized enterprises.

**Table no. 4. Evolution of SME contribution to the main economic and financial indicators for 2014-2016 in trade (%)**

Indicators	2014	2015	2016
Number of enterprises	99	99	99
Average number of employees	67	67	67
Turnover	69	69	69
Production of the exercise	69	68	68
Direct exports	42	33	37
Gross value added at cost of factors	60	59	60
Staff costs	53	52	54
Gross operating surplus	67	68	69
The gross result of the exercise	68	77	76
Net investments made	69	69	73

Source: Editing authors after Elena Mihaela Iagăr (coord)- Small and Medium Enterprises in the Romanian Economy, year 2016 INS, 2018, p.107.

Regarding the dynamics of enterprises in the years 2017 and 2018, according to the official data of the National Trade Register Office (ONRC), in the first 6 months of 2018, the number of new start-ups was 9.81% lower than in the same period of 2017.

Among the causes that have led to this situation are the increased instability of tax legislation registered in the first 3 calendar months of 2018, the very large volume of normative acts adopted. According to CNIPMMR, in the first 90 days of 2018, the business environment was forced to implement 217 new regulations amending /

completing Law no. 227/2015 on the Fiscal Code, 97 even from the first day of the year, and another 120 adopted at very short distances, to which were added important amendments to the Fiscal Procedure Code and the Legislation on Compulsory Contributions. According to the same source, the negative effects of changes in tax legislation on SMEs are: increased bureaucracy for taxpayers and employers, rising human resource costs, difficulties in implementing legislative changes due to the short time span of implementation, consistent additional financial effort to update computer programs.

Changes to the tax system have significantly influenced predictability, the most important factor in substantiating the investment decision with an impact on the growth of SMEs, jobs, innovation, commercial and financial performance.

### **3. Measures adopted in Romania for SME financing and proposals on supporting the Romanian business environment**

Romania's effort to support the business environment and, in particular, the financing of SMEs has resulted in the implementation of 6 multiannual programs to support economic agents by the Agency for the Implementation of Projects and Programs for SMEs (AIPPSME), the development of the state aid scheme dedicated exclusively to the development of SMEs set up in 2010 by the Ministry of Public Finance, the establishment of the Romanian Guarantee Fund in 2009 the development of the state aid scheme dedicated exclusively to the development of SMEs set up in 2010 by the Ministry of Public Finance, the establishment of the Romanian Guarantee Fund in 2009. In 2017, the Ministry for the Business, Commerce and Entrepreneurship Environment was set up as an institution of the Romanian government implementing the Strategy and Program of Governance in the SME field, the business environment, trade, entrepreneurship and foreign investment in line with market economic requirements and to stimulate the entrepreneurial initiative of economic operators.

The Ministry for the Business, Commerce and Entrepreneurship Environment has developed the Regional Agency for SMEs, has assured the promotion of Romania's business offer at global level, has adopted the law of the public-private partnership. The areas of interest of the Ministry of Business, Commerce and Entrepreneurship in the business and entrepreneurial environment were:

- supporting the development of SMEs and entrepreneurship through the Entrepreneurship and Programs for SMEs <http://www.aippimm.ro>;
- regulations of the business environment through the Business Environment Directorate (<http://www.imm.gov.ro/mediul-de-afaceri>);
- attracting FDI through InvestRomania <http://www.imm.gov.ro/investitii-straine>

The Ministry for Business, Commerce and Entrepreneurship coordinates the implementation of the following programs that support business and entrepreneurship: Romania Start-Up Nation, Program for the Development of Entrepreneurship among Manager Women in the SME sector, UNCTAD/EMPRETEC Program - Romania to support the development of SMEs, program implemented in 35 countries in Central America, Latin America, Africa and the Middle East. Romania is the first country in Europe involved in this project, which is to provide assistance to a minimum of 100 beneficiaries, individuals, existing or potential entrepreneurs, top management, specialists from public and private organizations who want to develop entrepreneurial or managerial behavior. Other programs include the Microindustrialisation Program, the Trade and Services Program for Craftsmen and Handicrafts, the Internationalization Program.

The operational programs managed by the Ministry of European Funds that support the business environment, human capital development, fast labor market integration and

the share of budget allocations are: Large Infrastructure Operational Program (LIOP) with 21,5%, Human Capital Operational Program (HCOP) with 19,71%, Operational Program Competitiveness (OPC) with 21,65%, Operational Program for Assistance to Disadvantaged Persons (OPADP) with 26,71% and Operational Program Technical Assistance (OPTA) with 38,18%.

Financing of economic growth, innovation and job creation in SMEs is now again brought to the attention of the European Parliament through the rules governing the union of capital markets. These rules will allow SMEs to an easier access to public markets through so-called "growth markets for SMEs", new trading venues for SMEs. Securing a stock exchange will help SMEs reduce their financial dependence on bank financing which is currently the majority in Romania. It is expected to amend two key legislation on financial services, namely the Market Abuse Regulation and the Prospectus Regulation. This review will strike a balance between reducing bureaucracy for small businesses, safeguarding market and investor integrity, and allowing competent national authorities to adapt market practices to local conditions. This will ensure a minimum level of liquidity and will reduce the volatility of SMEs' shares. A new initiative is focused in particular on growth markets for SMEs, by listing SMEs and issuing securities, guaranteeing investor protection and integrating the market.

CNIPMMR, the strongest employers' organization in South-Eastern Europe, based on the provisions of the Government Program 2017-2020, UE Strategy 2020, EU funding program 2014-2020 and Small Business Act has made some proposals regarding the support of the Romanian business environment, namely the establishment of Bucharest Business Agency, the project Capital of Romanian Entrepreneurship, a premiere at European level, a program launched in 2017, an initiative of CNIPMMR together with the Association of Municipalities in Romania and supported by all business organizations in Romania with the aim of encouraging the entrepreneurial spirit at the level of the municipalities in Romania, of establishing support measures for the business environment at the local level, establishing support measures for the business environment at the local level. The selected capital is supported by the organization of events dedicated to the business environment, organizing meetings to promote entrepreneurship among students and known entrepreneurs, mentoring programs among pupils and students, providing know-how by successful entrepreneurs. Other proposals target the concept of "Digital Romania" characterized by free electronic signature, entrepreneurial education with digitization modules, e-schools, e-citizens, digital-SMEs, including support for digitization in future financial programs or neutral legislation and technological intelligence.

Integration of digital technology at the enterprise level must be seen as a necessity for supporting the business environment. Romania is at the end of the European ranking in this respect. According to the country report, in Romania, SMEs only sell 7.7% of online products and services (27th place), the turnover of SMEs in e-commerce is 5.2%, (25th place). Romania does not yet have a clear digitalization strategy, although at the policy level was launched in 2016 the Manifesto for Digital Romania.

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