

Iulian Boldea, Dumitru-Mircea Buda (Editors)

CONVERGENT DISCOURSES. Exploring the Contexts of Communication

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PUBLIC POLICIES AND ENTREPRENERUSHIP. INSIGHTS FROM EMPIRICAL RESEARCH

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Abstract: Entrepreneurship is widely regarded as the engine of economic growth and public policies looking to encourage it are generally considered beneficial. However, undertaking a business is conditional upon a number of factors, many of them being overlooked when public strategies are formulated. In the present paper we analyse whether conventional policies to stimulate entrepreneurship have positive effects in the context of Romanian economy and society. We document the features of Romanian actual and would be entrepreneurs, the barriers to entrepreneurship and the quality of government policies using insights from Global Entrepreneurship Monitor and other empirical studies conducted by public and private organisations. Consequently, serious doubts are raised concerning the positive effects of present-day policies.

Keywords: Entrepreneurship, start-up, subsidization of entrepreneurship, employment, economic growth.

The goal of the present paper is to show that public subsidization of entrepreneurship is unwarranted given the features of Romanian actual and would be entrepreneurs. Our analysis will be based on both general economic theory and the particular context of entrepreneurship in Romania. Political measures to stimulate people to become entrepreneurs do not have a strong established economic foundation. They provide a bonus to those who already have the interest and means to become entrepreneurs and mostly lead to the formation of small businesses with no significant role in increasing employment or innovation.

Our skepticism relative to the merits of the current policy of subsidizing entrepreneurship is based on the following reasons.

1. People are not apathetic when it comes to entrepreneurship, so there is no need for further stimulus.

According to Global Entrepreneurship Monitor, the intentions of romanians to start a business are so high, that Romania is in pole position in Europe. Almost a third (31,7%) of the people of age 18-64 (that is, more then three times the european average) want to become entrepreneurs. Moreover, the share of potential (and intentional) entrepreneurs has continually

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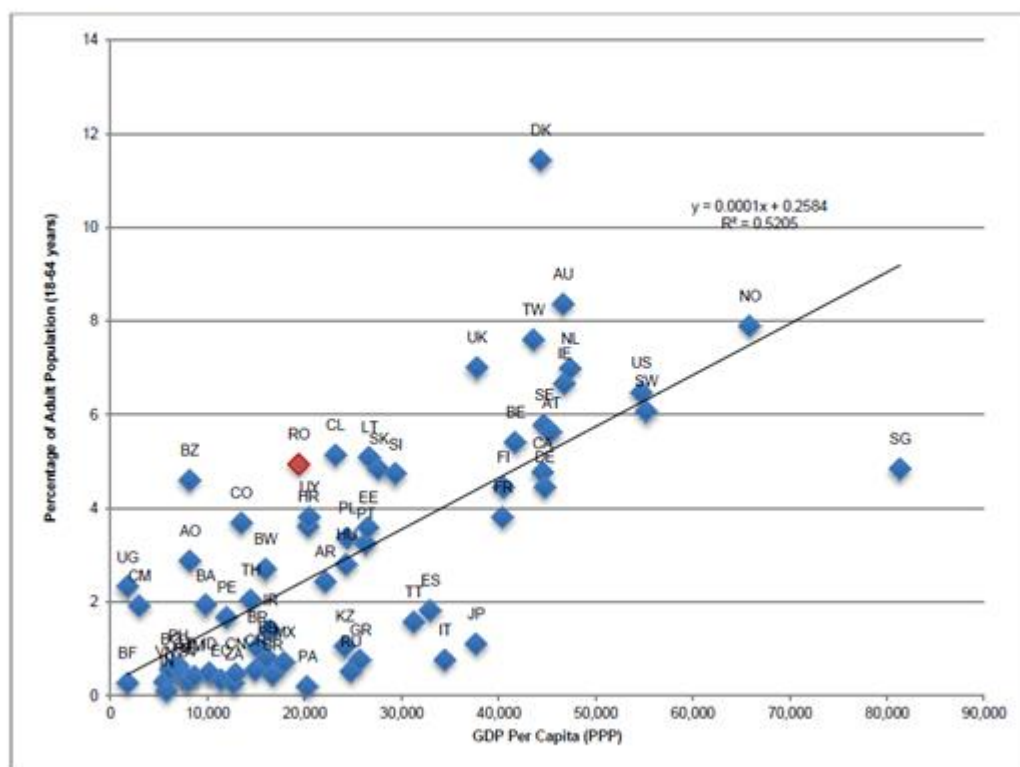
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increased during the last five years, from 7.70% (27.71%) in 2011 to 10.09% (32.67%) in 2014. As it can be seen from the figure below, the level of entrepreneurial activity in Romania is much higher than the average, relative to the level of development (as measured by GDP per capita), and is the highest in the similar economies from EU.

Entrepreneurial employee activity rate and GDP per capita in GEM participating countries, 2014



Source: Global Entrepreneurship Monitor 2014, p. 53

The same study states that „more than half of young business owner-managers and early-stage entrepreneurs are improvement-driven opportunity motivated.”. Also, romanian entrepreneurs use modern technology more often than entrepreneurs in neighbouring countries (Table 8).

2. Subsidizing start-ups is not an effective way of increasing employment.

A classical argument for subsidizing entrepreneurship is that it will lead to an increase of employment. We should note that unemployment is not a significant problem in Romania, and that the people who are currently unemployed remain so because of structural reasons. But

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even without taking into consideration this fact, the employment effect of subsidizing entrepreneurship is achieved only when the assistance goes to the right employers, more exactly big corporations. Most of early and established entrepreneurs offer 0-5 jobs (Table 10), which means subsidizing start-ups is not an effective way of increasing employment. Romanian entrepreneurs are highly optimistic about the prospects of their business, expecting a strong increase in the number of jobs they will create in the next five years (Figure 6). In the similar economies from the EU, „the highest share of entrepreneurs with significant international orientation (at least 25% of their customers are from a different country) can be found in Croatia, followed by Romania” (p. 27).

3. People are not illiterates in entrepreneurship

One reason for the many training courses in entrepreneurship, mostly covered by european funds, is that people are illiterate in entrepreneurship, and that they don't possess the skills necessary to open and operate a business. This assumption seems to be contradicted by the declarations of people themselves. Half of the romanians consider they own the necessary knowledge and skills to start a business – the second-highest level in similar economies from EU (Table 15).

4. It's not the lack of capital, but real economic factors which inhibit entrepreneurship

In a series of studies conducted by the National Bank of Romania, the most important barriers which entrepreneurs have to face have no relation with the objectives of the current policies vis-a-vis entrepreneurship. “According to companies, the level of taxation, competition and lack of demand are, in this order, the most important challenges for their business. The difficult access to finance represent a serious problem for only 15% of all firms.”

The same conclusions are to a somehow lesser extent confirmed by the Ernst & Young study of romanian entrepreneurship. Thus, the biggest barrier to start and develop a business is, according to entrepreneurs, the fiscal uncertainty and the level of taxes (48%). The access to funding is considered a major problem by 18%. The lack of capital is a major issue for students looking to start a company, and for obvious reasons, but even in this case only 3% of entrepreneurs think public funding and support is less than adequate.

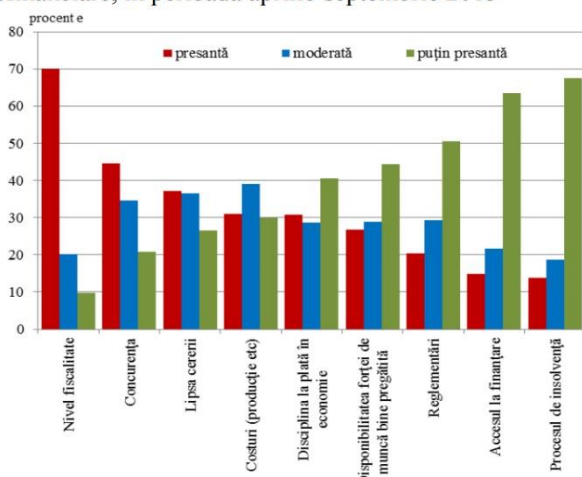
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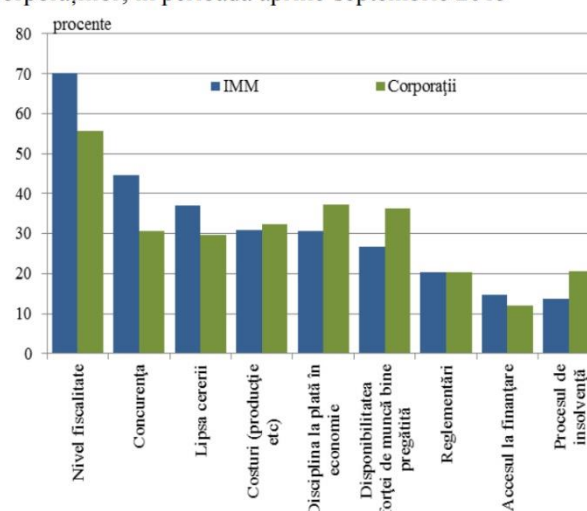
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Grafic 5: Cele mai presante probleme ale companiilor nefinanciare, în perioada aprilie-septembrie 2015



Grafic 6: Cele mai presante probleme ale IMM și corporațiilor, în perioada aprilie-septembrie 2015

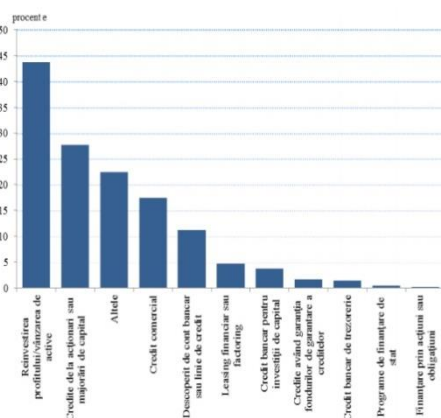


Source: National Bank of Romania 2015

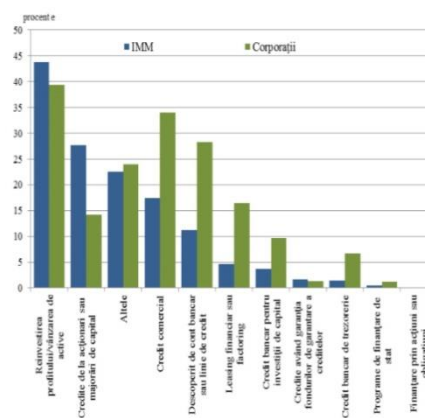
5. Romanian firms don't use public funds

Bank loans or government programs have almost insignificant importance in how SME finance their businesses. Raising capital through the financial market (shares or bonds) or getting financial assistance from the government are almost ignored by both the small and medium enterprises and corporations. Instead, the main method of finance is reinvesting their own profit (over 40% of all non-financial companies) and borrowing from shareholders. This is because of fiscal reasons and the lack of development of romanian capital market.

Grafic 7: Principalele surse de finanțare ale companiilor în perioada aprilie-septembrie 2015, pentru companiile nefinanciare



Grafic 8: Principalele surse de finanțare ale companiilor în perioada aprilie-septembrie 2015, pentru IMM și corporații



Source: National Bank of Romania, 2015

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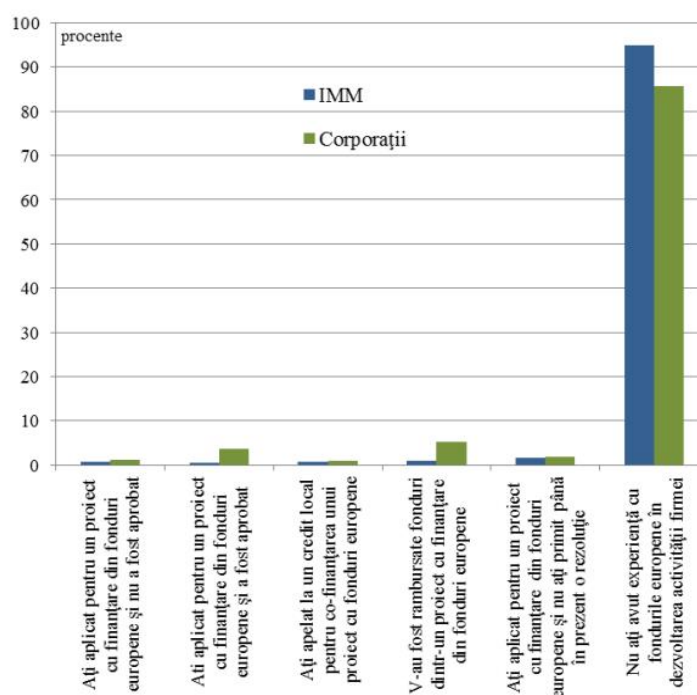
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Moreover, the vast majority of SME (90%) have no experience with european funds and did not use european funds for financing their activities. European funds are known as attracting a significant bureaucratic burden. In the current year Romania has one of the strongest economic growth rate in EU, with insignificant amounts of european funds.

Grafic 14: Accesarea fondurilor europene în perioada aprilie-septembrie 2015, de către IMM și corporații



Source: National Bank of Romania, 2015

6. Bureacracy is overwhelming for entrepreneurs

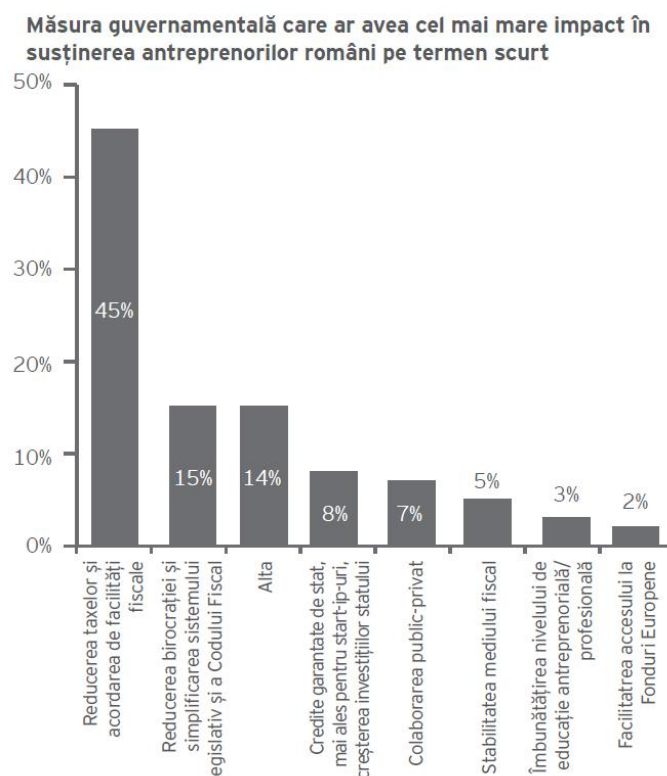
According to the Ernst & Young study, romanian entrepreneurs, the most important thing policymakers should do is not to increase public funding, but to cut taxes. Reducing bureaucracy and simplifying regulations are also very important. Only 3% of them think that the government should do more to improve the entrepreneurial and professional education.

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Source: Ernst & Young 2015, p. 42

Even when asked „what the government can do to help you access capital?“, entrepreneurs prefer to receive fiscal reductions for investing in small companies, a lower taxation of capital gains or loan guarantees (64%) rather than public funding (13%).

Although they do not regard this as a major barrier in developing their business, the vast majority (83%) of romanian entrepreneurs consider the access to funding as difficult and very difficult. If one wonders why the natural channel for transforming savings into investments – the banking system – does such a poor job in financing businesses, then one should look no farther than in the banks’ balance sheets and notice that more than a quarter of all banks’ portfolio is filled with T-bills. Given that romanian banks have the highest exposure on government debt among european banks, it is not a coincidence that they prefer to hold the door shut to keep young entrepreneurs out of their clientele. From this macroeconomic perspective then, the solution to the problem of difficult access to bank loans for start-ups and small companies is to reduce budget deficits and to stimulate competition among banks.

7. Small enterprises are not engaged in innovation-enhancing businesses.

According to the National Institute of Statistics, less than a fifth of small firms can be considered innovative enterprises, relative to 40% of major companies. Also, less than a fifth

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of all jobs created in small enterprises are related to innovative activities, which is almost half the average for the entire economy.

13.16 Tipologia inovatorilor, în perioada 2010 - 2012 *Innovators typology, during 2010 - 2012*

	Număr total de întreprinderi ¹⁾ <i>Total number of enterprises ¹⁾</i>	Număr întreprinderi inovatoare <i>Number of innovative enterprises</i>	Pondere față de total întreprinderi <i>Weight in total enterprises (%)</i>
Total	28866	5968	20,7
Mici	22400	4089	18,3
Mijlocii	5270	1400	26,6
Mari	1196	479	40,1

Source: Romanian Statistical Yearbook 2015

Conclusions

In light of these considerations it is unclear why public policies have delivered rather a balanced help to small, medium and big companies. Public policies to support entrepreneurship are based on various assumptions, for example: potential entrepreneurs are poorly motivated or educated, they lack financial resources or they are the vehicle for increasing innovation and the number of jobs. Empirical studies have shown that none of these assumptions is firmly established. On the contrary, potential entrepreneurs are already highly motivated and have the necessary abilities, and their most important concern is the level of taxation and bureaucracy. If the government wants to improve the business environment and stimulate entrepreneurial activity, then it should target this objective.

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