

# THE NECESSITY OF INNOVATION FOR THE SUSTAINABLE DEVELOPMENT OF ROMANIAN ENTREPRENEURSHIP

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**Abstract:** *Entrepreneurship is an important pillar for the economic growth, generating businesses and jobs. Above that, entrepreneurship is a necessity in our society, due to the higher rate of unemployment among young people all over European Union. In Romania, there is a positive attitude towards entrepreneurship and many people have the courage to start a business. This paper aims to find how these new businesses can be strengthened, in order to become sustainable and what the importance of innovation in this process is.*

**Key words:** *entrepreneurship, innovation, sustainable development, business environment.*

## 1. Introduction

In recent decades, innovation has become the focus of economic research as a key long-term factor of economic development. Improvements in the quality of life require new products and services. Innovative entrepreneurs are essential to the economy because they create the companies that form new industries and generate economic growth.

In the context of the innovation process, the roles of small and large firms often differ. Small firms have to be innovative because that is the only way they can penetrate the market or stay thereon. Although the names of many large firms are often associated with new products and processes, research has shown that even in global industries, small and medium-sized companies are often the source of new ideas that are integrated into other products or brought to the market in their own right by

large firms [15].

This paper has the following goals:

- to identify the evolution of new businesses started in the last years
- to determine the proportion of real innovative businesses in Romania at this moment.
- to find the main sectors where new businesses and innovative businesses were started in the last 2 years.
- to determine which are the obstacles in the entrepreneurship phenomenon development.

The paper is structured on two parts. The first part includes the theoretical aspects regarding the relationship between entrepreneurship, innovation and sustainable development. The second part includes the state-of-art of entrepreneurship and innovative businesses in Romania. In the end, there are dropped some conclusions based on the approached issues.

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## 2. Literature review on entrepreneurship and innovation

One of the most recent and comprehensive definition for entrepreneurship belongs to Nadim Ahmad and Anders Hoffmann N. [1] which was accepted in OECD Oslo Manual 2007, too. From their view, entrepreneurship is the phenomenon associated with entrepreneurial activity, i.e. entrepreneurial human actions who seek to generate value, by the creation and development of economic activity, by identifying and exploiting new products, processes or markets.

The results of innovation studies have increasingly emphasized the link between innovation, underlying research and entrepreneurial effort aimed at commercializing the results of R&D. In many instances innovation is a precondition for an enterprise acquiring a competitive advantage [19].

According to the OECD, innovation is the implementation of a new or significantly improved product (good or service) or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations of a company [16]. Turning an innovative idea into economic activity creates companies, economic growth and jobs [17].

Innovation is associated with uncertainty, involves investments and the utilization of new knowledge, or a new use or a combination of existing knowledge. Innovation aims at improving the firm's performance by gaining a competitive advantage.

The relationship between entrepreneurship and innovation and its role in economic development was emphasized by Schumpeter, who appreciated that the entrepreneur is an innovator [12] who implements change

within markets through the carrying out of new combinations. These can take several forms:

- the introduction of a new good or quality thereof,
- the introduction of a new method of production,
- the opening of a new market,
- the conquest of a new source of supply of new materials or parts,
- the carrying out of the new organisation of any industry.

Entrepreneurial activity is concerned with the process of change, emergence, and creation [4]. The entrepreneur is simultaneously looking to the resources (and combining them in new and creative ways) and to markets (and perceiving new or unmet opportunities). The entrepreneur perceives and recognises a fit between the two, a process referred to as innovating.

W. Baumol (2010) which distinguishes between the innovative entrepreneur who has new original, unique ideas and the replicative entrepreneur (following a pattern), who starts a new business, but similar to other existing business in the market [3]. Considering the fact that entrepreneurship involves innovation [2], entrepreneurs play a very important role in the transfer of innovative knowledge to customers through selling process. Innovative entrepreneurs add value to the economy through individual initiative, creativity and flexibility.

The entrepreneurial process has 3 stages: invention, entrepreneurship and competitive entry [11]. The time-line of the process appear in Figure 1.

At the entrepreneurship stage, the entrepreneur creates a start-up and decides if he wants to be innovative or replicative.

The essential act of entrepreneurship is new entry. New entry can be accomplished by entering new or established markets with new or existing goods or services.

New entry is the act of launching a new venture, either by a start-up firm, through an existing firm, or via „internal corporate venturing”. [7]

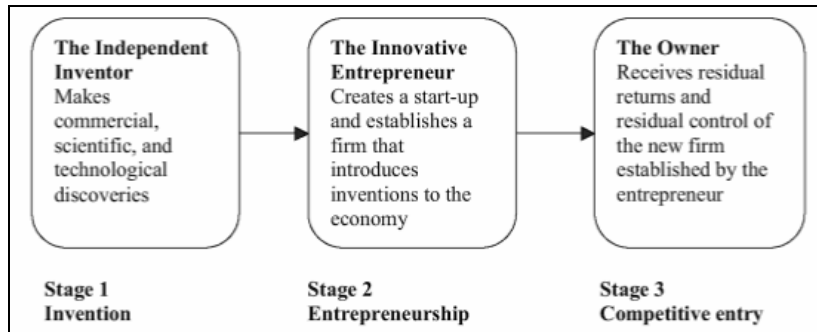


Fig.1. *The stages of the innovative entrepreneurial process*

The success of innovative entrepreneurial activities is based largely on the attitude of entrepreneurs towards the following items [13]: resistance to change in a complex business environment, dynamic and competitive, new technology, focus on citizen - customers (emancipated, informed and active), multitasking.

Also Gerlach [5] speaks about the necessity of approaching the analysis about the role of sustainable entrepreneurs for implementing sustainable development from the perspective of innovation. The focus lies on innovations that enhance sustainability. A successful sustainable innovation is accomplished when entrepreneurial actors achieve competitive advantages, i.e. economic success by applying innovative environmental and/or social practices. Small and medium-sized enterprises SMEs are increasingly recognized as a driving force for innovation, entrepreneurial spirit and competitiveness therefore are seen as one of the keys to achieving sustainable development [6].

The heart of the continuous innovation process is the commercialization of R&D results. This can be defined as the process of turning an invention into a product or service, which could be sold on the market

providing returns to the investment of the commercializing company. Continued commercialization nurtures the process of innovation, which is pivotal to sustained economic growth [3].

The access to finance is considered one of the most important factors influencing the development of entrepreneurship in general and of innovative enterprises in particular [21]. Several stages in the financing requirements of a start-up are usually distinguished:

- The seed stage covers the initial research and development of a commercial idea or business concept, focused on determining its technical feasibility, market potential and economic viability;
- The start-up stage covers the development of a product prototype, initial market research and market-reach activities, and the establishment of a formal business organization;
- The early-growth stage pertains to small-scale commercialization and growth as well as to laying down the basis for future growth;
- The expansion stage refers to the stage of substantial growth in the scale and market impact of the company.

## 2. Entrepreneurship and innovation in Romania

The main indicator used by Global Entrepreneurship Monitor (GEM) to measure entrepreneurial activity in a country is TEA - Total Entrepreneurial Activity [17]. This indicator represents the active population aged between 18 and 64 years who are in the process of starting a business (nascent entrepreneurship rate) or they already lead own start-ups (new business ownership rates).

TEA indicator for Romania recorded a value of 9%, one percentage point higher than the European average, which ranks our country 6th in Europe in terms of total entrepreneurial activity after Austria, Estonia, Latvia, the Netherlands and Slovakia. TEA structure is similar in Romania and the EU, with the rate of forming entrepreneurship representing

approximately 60% of Total entrepreneurial activity.

At national level, between January – June 2014, most new businesses were opened in trade sector and automotive repair area, as shown in Figure 2. This includes a wide range of business sites from shops and fast-foods to car service. The number of new businesses in the first half of 2014 (22494 firms) is bigger with over 3000 firms than the first half of 2013. On the second rank are placed the professional, scientific and technical businesses with over 5,000 companies, followed by those in the construction industry, with 3998 companies. On the following ranks are placed sectors like: construction, transport / storage, manufacturing, administrative and support activities, information and communications [22].

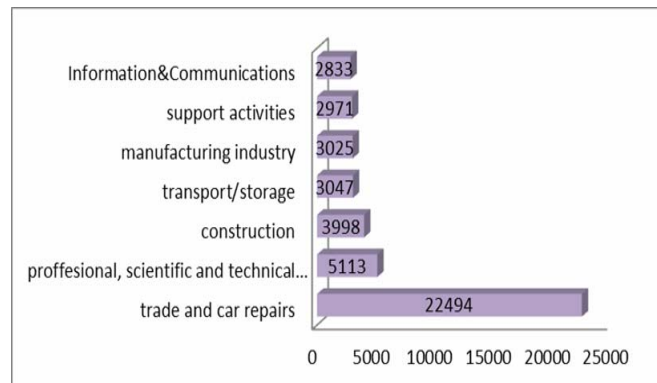


Fig. 2. *The sectors with most new businesses in 2014*

Established business ownership rates measures the percentage of companies who pass the start-up stage and reflect sustainability entrepreneurship from a country. Romania ranks second lowest in the EU in terms corporate sustainability: with a stable business rate of 4%, over 50% of business initiatives are closed or suspended in 42 months [17].

The field of entrepreneurship involves the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them [10]. In Romania, 25% of the entrepreneurial activity is determined by need and 38% to meet opportunities in the marketplace.

Start-ups are innovative by excellence because they tend to improve the existing production processes. New firms bring new ideas leading to innovation [9].

Global Entrepreneurship Monitor provides an analysis over 7 years (2007-2013) regarding the novelty of products offered by entrepreneurs with new businesses. In the following figure we can see that since 2010 the share of innovative products in total customer products has constantly increased.

In 2013 the percentage of innovative products reached 13.58%, exceeding the percentage for 2008 (the year when the global economic crisis started) [8].

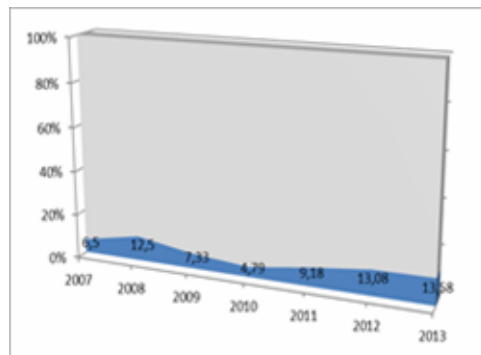


Fig.3. *The novelty of products and services between 2007-2013*

Young people are showing more and more interest in starting their own business, as shows the analysis of GEM in Romania for the period 2007-2013. In the following figure can be seen that since 2010 has been a constant evolution in the number of young entrepreneurs under the age of 24, although the number of young people aged 25-34 years is higher for the entire period.

Young entrepreneurs are attracted to start their innovative businesses in areas like: IT&C, services, social or medical assistance, leisure services, where growth potential is important [8].

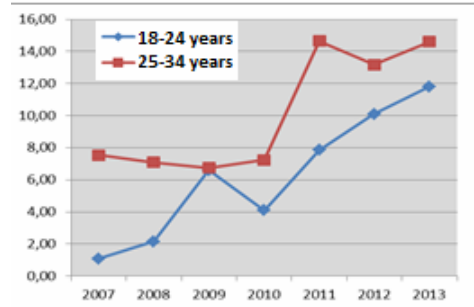


Fig.4. *The evolution of young entrepreneurs in Romania between 2007-2013*

The main barriers for young entrepreneurs in starting a business are: the access to finance and lack of real entrepreneurial education. Many of the traditional sources of early-stage finance are not immediately or sufficiently available for innovative enterprises. Indeed, innovation-based projects feature higher risks, which complicate the relationships of entrepreneurs with external investors. While the personal funds of the founders and their close collaborators and friends are often insufficient to cover the needs of start-ups, the uncertainty of outcomes, the intangible nature of assets of innovative enterprises (lack of collateral), the volatility of their cash-flows and the lack of track records often make them unsuitable for bank loans.

Stimulating innovation in SMEs in Romania is a very important element in context of ensuring a sustainable convergence process.

In 2013, innovation efforts of SMEs in Romania, as shown in the following figure, were concentrated especially for new products (40.22%), new technologies (22.94%), new management and marketing approaches (22.37%), upgrading information system (4.97%) and human resources training (4.97%) [18].



Fig.5. *The nature of innovation activities in Romanian SME's in 2013*

Regarding the main barriers in conducting R&D activities and innovation, SMEs indicate the following elements: the high cost of research and development activities (48.63%), insufficiency of own funds (40.09%), uncertainty regarding the innovative products demand (35.37%), lack of public funding schemes / co-funding of research and development activities and / or rigidity of the eligibility criteria (28.11%), difficult access to relevant information on markets (marketing research, statistics, etc.) (28.04%), difficult access to relevant information on new technologies (19.69%), the difficulty of finding partners for cooperation on research and development (14.53%) lack of medium and long-term forecasts on the evolution of these sectors of activity (11.47%) and lack of adequate human resources (11.03%).

Particularly important for all companies, the quality of the business environment is strongly correlated with their propensity toward innovation. In Romania, the business environment has improved significantly in recent years but remains the lot to do on the topic to create a friendly environment for business and innovation. Some monitoring tools have shown, among other things that Romanian businessmen are unsatisfied with entry and

exit procedures on the market, which are perceived as obstacles, about legislative instability, bureaucracy, factors that increase the opportunity cost of business.

These regulatory and administrative barriers impair the creation and development of business, thus reducing the number and economic power of potential innovators.

Despite the recent economic uncertainties, people are positive about entrepreneurship.

### 3. Conclusions and recommendations

Entrepreneurship is an important pillar of economic growth. The entrepreneur's activities occur within a business context, which includes industry structures, competition, and national economic structures. This business context is impacted in turn by wider environmental considerations, which include the economic, political, legal, social, cultural, social, and natural settings.

To remove barriers that now stand in the way of Romanian entrepreneurs, a joint effort is needed from policy-makers, and investors, entrepreneurs, journalists, teachers, specialized associations and corporations.

Entrepreneurial ecosystems are deeply affected by technological and cultural developments. As digital infrastructure and its applications for enterprises continue to develop, the transaction costs of collaborations will decrease and the ability of different sectors to adopt new ways of working will increase.

To ensure a more effective commercialization and foster the innovation-based entrepreneurship, stakeholders in emerging market economies need to encourage industry-science linkages. The ways and means of achieving this include developing cooperation in R&D through open

innovation projects or research joint ventures. The business community should be more actively involved in advising on university curricula, and on available and future job opportunities. At the same time, curricula in scientific subjects should include courses on entrepreneurship training. The mobility of personnel between research institutions and private companies could also contribute to their productive cooperation.

Science parks, having the advantage of proximity to universities, enable the local economies to reap the synergic effect of clustering small innovation-based enterprises, public research institutions and larger companies.

Promoting innovation does not mean only focusing on factors related directly to research and development, but also requires improvements across other pillars such as higher education, training and technological readiness.

As a long-term goal, it has to be established a culture that values entrepreneurship, encourages potential entrepreneurs and support them to face the environment uncertainty. Society can contribute to increase the rate of sustainable entrepreneurship and innovation by conferring social status, appreciation for entrepreneurial behaviour.

The goal of a healthy and robust entrepreneurial system is to foster serial entrepreneurs who after achieving success, continue to support entrepreneurial activities as investors, mentors and role models.

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