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The 14th Economic International Conference: Strategies and Development Policies of Territories: International, Country, Region, City, Location Challenges | May 10-11, 2018 | Stefan cel Mare University of Suceava, Romania

Strategies and Development Policies of Territories: International, Country, Region, City, Location Challenges

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https://doi.org/10.18662/lumproc.68

How to cite: Boghean, C., State, M., Chasovschi, C., & Nastase C. (2018). Characteristics of Entrepreneurs in Newly Created Companies. A Comparative Analysis by Romanian Development Regions. In C. Năstase (ed.), *The 14th Economic International Conference: Strategies and Development Policies of Territories: International, Country, Region, City, Location Challenges | May 10-11, 2018 | Stefan cel Mare University of Suceava, Romania* (pp. 134-145). Iasi, Romania: LUMEN Proceedings. https://doi.org/10.18662/lumproc.68

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Characteristics of Entrepreneurs in Newly Created Companies. A Comparative Analysis by Romanian Development Regions

Carmen BOGHEAN[1], Mihaela STATE[2]*, Carmen CHAŞOVSCHI[3], Carmen NĂSTASE[4]*

Abstract

Back in 1992, Adam and Schwartz have stated that in all Eastern Europe, privatization was fundamental for the transition from plan to market. The transition was supported by the entrepreneurial initiative, that took advantage from a new open economy [1]. *The characteristics of the entrepreneur can influence in a major way the business success and development, the well-being of a nation being closely related to the intensity of the entrepreneurial activity. With no doubt, entrepreneurship is vital for the national economy, being an important growth factor and contributing significantly to the long-term prosperity. For ~~the~~ countries in transition, as Romania, the massive loss of jobs after 1990, determined by "the shrinking of the state sector", was compensated partially by the small business sector that was the "main factor driving economic growth" and absorbed also the "unemployment". The purpose of this paper is to analyse whether there are significant differences in the profile of the founders of newly created enterprises (especially the level of education and previous socio-professional category of founder/manager) from developed regions in Romania during 2010-2016 taking into consideration the rural and urban areas. The research methodology is based on a descriptive analysis and application of a correlation coefficient, using the data collected from the Romanian National Institute of Statistics and from the website of the European Commission for the timeframe mentioned above.*

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https://doi.org/10.18662/lumproc.68
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Keywords:
Characteristics of entrepreneur, newly created enterprises, development regions.

1. Introduction

Entrepreneurship is an all-encompassing phenomenon and entrepreneurs of contemporary economic life. The society cannot grow without a significant entrepreneurial activity, which also involves innovation, involvement, determination, creativity and, finally, progress.

The motivation for starting a new business has not changed over the years. The entrepreneur of the new millennium is - as previous generations - well driven by the desire for financial independence, by the dream to sell an innovative product or service, by the desire to cover a market need or – why not – to test its limits [2]. According to Fenn "the decision to start a business is not particularly intimidating; for better or worse, it's often not thoroughly planned out it"[2].

Many entrepreneurs invest enormous amounts of money to have access to advanced technology, to research results in order to initiate high-innovative businesses. Other entrepreneurs are preferring to enter on local markets, selling common products and services, hoping to find a place on a high competitive market. In both situations, the profile of the entrepreneur is imprinting the profile of the business.

Not only the entrepreneur is responsible for its success but the economic environment is, as well, decisive for the number of new entrepreneurs (supply of entrepreneurship) and for the quality of entrepreneurship [3]. Chilosi mentioned that the quality of entrepreneurship (quality of the activity) is depending on the incentives for entrepreneurs to perform effectively. If the environment is important, we assume that differences may occur between the urban and rural entrepreneurship and between regions of development. The same opinion is mentioned by Chașovschi et al., that are as a conclusion after a research undertaken in Romania and Republic of Moldova stating that a large part of entrepreneurs are facing problems related to the environment in which they operate [4].

Following previous researches that have identified an influence of regional profile and policies on the new set up companies and their success [5], the present study aims to analyze the existence of a correlation between the development of the host region and the profile of entrepreneurs from new created companies. As well, taking into consideration the studies of Kolstad and Wiig [6] we will investigate the relation between education, previous experience and entrepreneurial success.

2. Problem Statement

The start-up initiatives and the small companies as well, are strongly imprinted by the personality and profile of the entrepreneur. For some researchers, the entrepreneur is the person who decides to start an economic activity, the person that adopts an active and innovative behavior, that mobilizes resources to start the desired business and accepts financial risks, to develop new projects. The entrepreneur has the power to create new combinations of production factors, to discover new methods of production and new markets, can find new sources of supply and new organizational forms [7], [8].

Entrepreneurship should be a dynamic factor for the less developed regions, with a large rural area [9]. Still, that could not be enough: Petrin mentioned that the development of entrepreneurship involves a strong network and interlinkage, the businesses in rural areas being usually community based, with a large impact on local community [10].

Still, the question remained open is: what leads the entrepreneur to success? In 1995 Davidsson studied the determinants of entrepreneurial intentions [11] and confirmed that the demographic characteristics are relevant for the decision to become an entrepreneur. Welmilla (2011) et al. [12] have highlighted as well these influences, especially regarding age, gender, religion and level of education. Age was the subject of additional studies developed by Reynolds [13]. The last one comes with the conclusion that the intention to start a new business is much intensive to the 25-44 age group and Raposo et al. [14] stated that the entrepreneurs have more opportunities as they grow older. Still, they have confirmed the findings of Reynolds: their willingness to become entrepreneurs diminishes by aging.

Several studies have analysed the gender's influence on entrepreneurial behaviour. Van der Kuip and Verheul (2004) argued that women are increasingly involved in entrepreneurship because they want to improve their family's living standards, which would not be possible if they are in low pay jobs [15].

The relation between successful entrepreneurs and level of education was investigated by Reynolds et al. [13] that emphasize that higher education levels generally indicate a high probability of the performance of the new enterprise. Wiing and Kolstad [6], Van Praag et. al [16] identified a causal effect between education and entrepreneurial profits in developing country context. Nevertheless, Van Praag et al. mentioned that "higher education affects people's decisions to become an entrepreneur negatively". The situation is different in Nigeria, were Olofinyehun et al. [17] have studied the connection between entrepreneurship education and entrepreneurial interest,

and a large amount of respondents (84% from a full sample of 22.621) indicated an interest for starting a new business.

In this context, our research investigates the way that the demographic characteristics are connected to the success of newly enterprises in Romania, according to the level of development of the region where they are located. The paper highlights new aspects, which relate especially to the level of education and previous occupation of the manager or founder.

3. Aims of the research

Entrepreneurship and innovation are strongly influenced by "the historic character of the regional specialization" [18]. The purpose of the research is to analyse whether there are differences in the profile of new entrepreneurs by development regions in Romania. More specific, we would like to investigate if there is a connection between the orientation toward entrepreneurship as an alternative to a career as employee and the education level of entrepreneurs. In our opinion, in more developed regions there is a higher probability for a person with a medium and higher level of education to give up the job and start a business on his own due to existing opportunities. The entrepreneurs with a higher level of education can have an important impact on the performance of the company, with long-term effects on the development of the area in which they are located.

The research objectives were: (1) to identify the differences in the profile of the entrepreneurs in different development regions in Romania and (2) to analyse the link between the level of development of the regions and the demographic characteristics of the new entrepreneurs. The following hypotheses were formulated to achieve these objectives:

(H1). There are significant differences in the profile of entrepreneurs (level of education and previous occupation of the manager or founder) from different development regions of Romania.

(H2). There is a link between the level of education of entrepreneurs and the level of development of the regions.

4. Research Methods

The research methodology is based on a descriptive analysis and application of a correlation coefficient. Data on the demographic characteristics of new entrepreneurs was collected from the National Statistical Institute's website for 2010-2016. The comparison of the

development of the regions was made using as indicator the Gross Domestic Product per capita, the data being available on the website of the European Commission.

5. Findings

5.1. Analysis of differences in the profile of new entrepreneurs by development regions

Romania is divided into eight development regions without legal personality, defined in 1998 by the association of county councils, with the aim to coordinate more effectively the regional development of Romania, on the long-term process of adherence to the European Union. Romania's development regions correspond to the NUTS-II level divisions in the EU. The distribution of development regions by gross domestic product in 2016 is shown in Figure 1, depicting an important difference between the poor developed area (North-East) and the richest area (Bucharest-Ilfov).

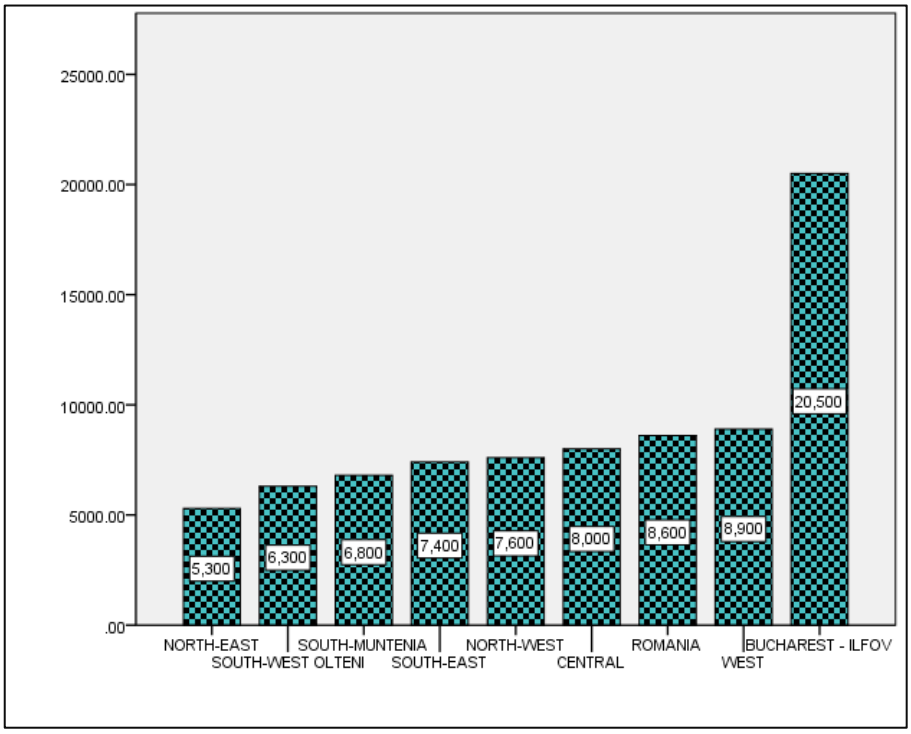


Figure 1. GDP per capita in 2016 in Romania by development regions (euros)
Source: based on data https://ec.europa.eu/eurostat

Romania recorded in 2016 a Gross Domestic Product (GDP) per capita of 8600 euros and only 2 development regions are above the national average. The most developed region in Romania is Bucharest-Ilfov with a GDP of 20500 euros per inhabitant while the lowest value is registered in the North East Region.

The share of active rural population aged 15 years and over is the highest (64.30) in the North -East region and the second place belongs to the Bucharest Ilfov region (55.60), which has a high share of the active population in rural areas as can be seen in Figure 2.

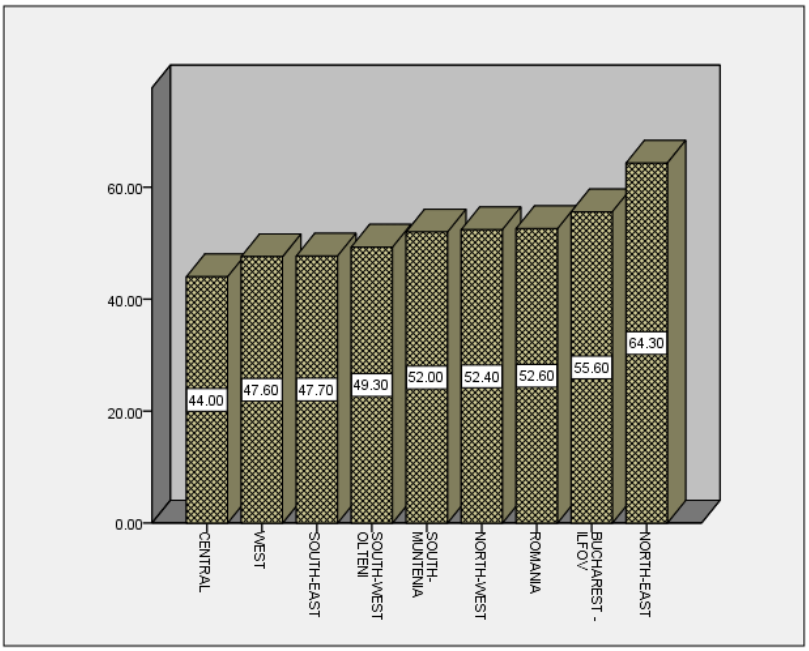


Figure 2. Activity rate by development regions in rural areas in 2016
Source: based on data www.insse.ro

Although the North-East Region and the Bucharest-Ilfov Region have a large active population in rural areas, the gap between the level of development of these two regions is significant. The situation can be explained, among others, by the differences in the productivity between the two regions. The performance of the companies is visible through the gross domestic product achieved at the level of each region. One explanation can be that the entrepreneurs with a higher level of education or experience, manage to be more competitive and to capitalize better the opportunities on the market.

Bucharest-Ilfov Region has the largest share of newly established firms whose managers or founders have completed high school or university studies (78.4%) while in the North-East region, only 52.9% of entrepreneurs have a medium or high level of education (Figure 3).

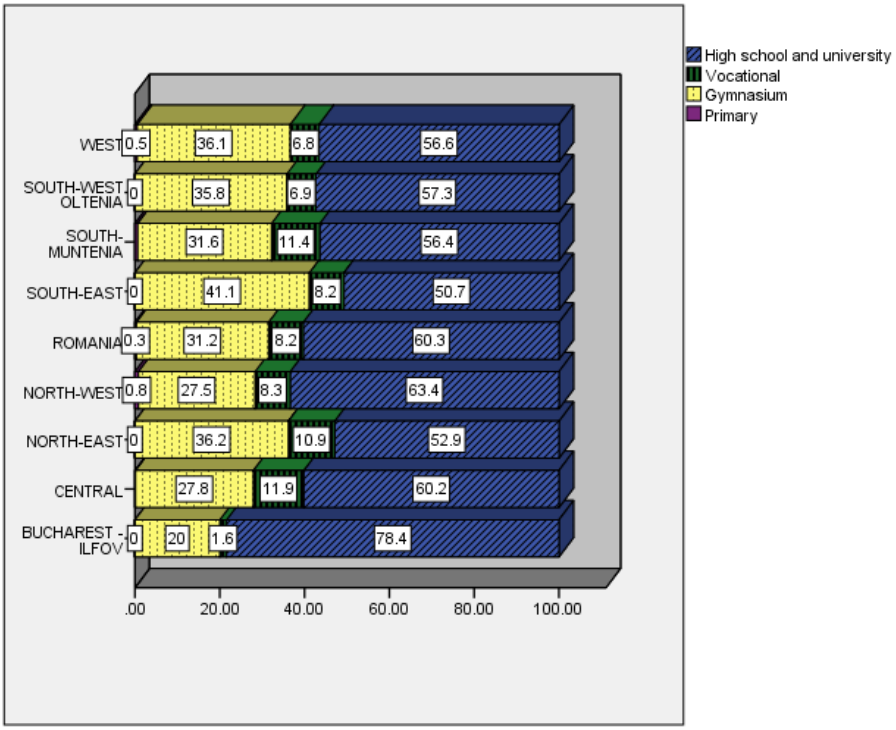


Figure 3. Distribution of newly created active enterprises according to the level of training of the founder/manager in Romania in 2016.
Source: based on data from www.insse.ro

The smallest share (50.2%) of entrepreneurs who have completed high school or university studies is in the South East region. In this region, the Gross Domestic Product is below the national average and the share of the active population in the rural area is 47.7%. There is a higher probability that a person with higher education, from a more developed region, will take the risk of starting a business on their own, compared to another in a region with a lower level of development.

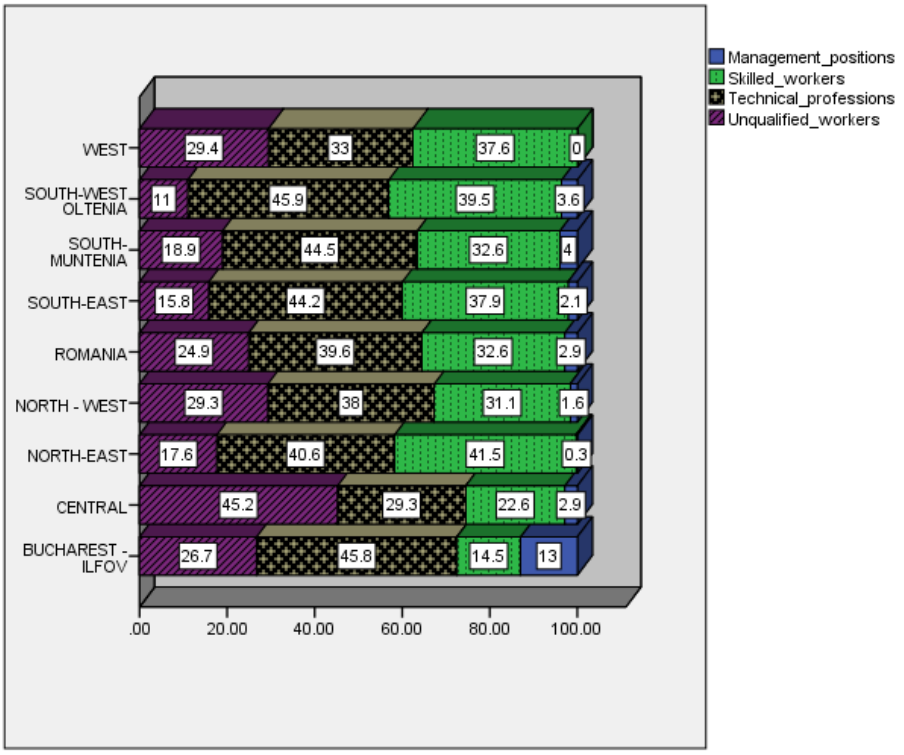


Figure 4. Distribution of newly created active enterprises according to the previous occupation of the manager or founder in Romania in 2016. Source: based on data from www.insse.ro

Distribution of newly created enterprises according to the previous occupation of the manager or founder in Romania in 2016 points out that in the Bucharest-Ilfov Region there is the largest share of new entrepreneurs who previously had leading positions. We could assume that in an environment that presents development opportunities, there are more people who give up their job to start a business on their own, even if they have a management position.

5.2. The link between the profile of new entrepreneurs (level of studies and previous experience of new entrepreneurs) and the level of development of the region

To analyse the link between the profile of the new entrepreneurs and the level of development of the region, four variables were defined: Gross Domestic Product (GDP), the share of new entrepreneurs who have completed high school or university studies (High_university), the share of

new entrepreneurs who had leading positions (Management_postions) and the activity rate of the rural population (Activity_rate).

Table 1. Correlations between variables

		GDP	Activity _rural	High_ university	Management _position
GDP	Pearson Correlation	1	-.305*	.716**	.509**
	Sig. (2-tailed)		.015	.000	.000
	N	63	63	63	63
Activity _rural	Pearson Correlation	-.305*	1	-.292*	-.082
	Sig. (2-tailed)	.015		.020	.525
	N	63	63	63	63
High _university	Pearson Correlation	.716**	-.292*	1	.532**
	Sig. (2-tailed)	.000	.020		.000
	N	63	63	63	63
Management_ position	Pearson Correlation	.509**	-.082	.532**	1
	Sig. (2-tailed)	.000	.525	.000	
	N	63	63	63	63

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

The values obtained after applying the Pearson correlation coefficient show the existence of a strong link between the GDP variable and the High_university variable for the eight regions of Romania. In regions where there is a high GDP value there is also a large share of entrepreneurs who have completed high school or university studies. The value of the Pearson coefficient is 0.716 and correlation is significant at the 0.01 level (2-tailed). Between the GDP variable and the Management_ positions variable there is a direct relationship, the Pearson coefficient being 0.509, the intensity of the link is average. In regions with a lower level of development, the motivation for dropping out of a good job and starting a business on its own is lower. In regions where there is a larger share of rural active population, there is a smaller share of entrepreneurs who have dropped out of jobs with leadership positions to launch their own business. The relationship between the Activity_rate and Management_positions variable is inverse, the value of the Pearson coefficient being negative (0,305).

6. Discussions

Based on the analysis, the assumptions made were validated. The results obtained show that there are significant differences in the profile of entrepreneurs (level of education and previous occupation of the founder) by development regions and there is a link between the level of education of entrepreneurs and the level of development of the regions. The limits of the study are related to the fact that the analysis considered data for a fairly short period of time 2010-2016. As well, additional variable could influence the creation of start-ups, additional to the level of education. We intend to identify in future studies the factors and to analyse their impact on the dynamic of entrepreneurship in developed regions.

7. Conclusions

The research carried out revealed certain aspects considered relevant to the demographic characteristics of the new entrepreneurs located in different regions of Romania. In the regions with a high level of development and even a large proportion of the active population in rural areas, there is a greater likelihood of finding new entrepreneurs who have completed high school or university studies or who have had leading positions and who started a business on own account.

A high level of education as well as the experience of a leading position, can bring important advantages for entrepreneurs, with positive effects on the company performance and on the development of the community and the region of origin. Nevertheless, the Miner equation (developed in 1974), that is analysing the profits of firms through a regression equation that includes age, experience, education should be investigated in order to estimate the returns of education to the entrepreneurs [6]. Additional biases should be identified, in order to have an accurate causality between development of entrepreneurship and education levels of entrepreneurs and previous experience.

Acknowledgement

„This work was supported by a grant of the Romanian Ministery of Research and Innovation, CCCDI-UEFISCDI, project number PN-III-P1-1.2-PCCDI-2017-0884/56 PDDCI/03.04.2018. , within PNCDI III".

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