

# IMPACT OF THE ENTREPRENEURIAL SECTOR ON REGIONAL DEVELOPMENT

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**Abstract.** Micro, small and medium sized enterprises (SME) play an essential role in European economy. They represent a source of entrepreneurial abilities, innovation and creation of working places. In the European Union at 25 countries, about 23 millions of IMM ensure about 75 millions working places and represent 99% of all enterprises.

The significant spreading that SME posses in Romanian economy, their increased dynamics, the importance that will be given to this sector in national, regional and local politics are arguments which emphasis the higher role, that the entrepreneurial sector has in economical development of each region.

In our country, supporting SME does not suppose only protecting new industries, but also assuming the fact that a great number of economical actors of smaller dimensions involve positive macro economical effects.

Small and middle societies contribute to the diminishing of the monopolist role of great enterprises, at increasing competition and generate, through mobility and flexibility that are specific, a powerful impact on the process of production adaptation at market requirements. That is why, they represent the most dynamic and profitable economical sector from our country and with highest development perspectives.

In our country, as in many central and east European countries, the passage to market economy signified the evolution of two components: the transfer of the property right on state enterprises to persons of private law, which is the so called privatization process, no matter the method that was applied, as well as the apparition of some new private enterprises, as a result of some private, independent initiatives, which were founded as a result of changes realized in the units that are the state's property. These two evolution modalities manifested more or less simultaneously, but in different rhythms. Both had repercussions on labor market. Meanwhile the privatization led to the reduction of the number of working places, amplifying unemployment, this way, especially on long term, the new private sector created the biggest part of working places. Taking into account the fact that the majority of newly enterprises are small or middle, it can be observed that this sector absorbed the highest part of the lay off working force, and contributed, in the same time, at the formation of employers and employees.

The importance of small and middle enterprises derives, especially from their size and structure, which allows them to have the flexibility and ability necessary to innovation, establishing some tight connections with community, through optimal capitalization of local resources, to create new working places, economical and social diversification and development at the level of a territory and, especially, to the adaptation at the unbeneficial economical conditions. This way, SME are conceived as an element of economical growth and stability, which influence the development, especially, at inferior levels, that is the local and regional one.

Depending on their size, profile and modality of integration, but especially on the specific of the geographical space in which will be developed, IMM will have a differential impact on the local economical development of human communities.

Even if big companies remain a key factor in restructuring the production system, the SME activity is considered as being strategic for the economical reconstruction of each region, on condition that SME be included in a well – structured environment, in a coherent territorial net, producing links, relations, exchanges between these and other economical agents as are banks, commerce chamber, local public administration, institutes of superior studies, consultancy companies. The local economical development must be seen, so, as a dependent process of innovation and entrepreneur skills.

An essential attribute of small and middle companies are made of the fact that these are an important source of working places. Two thirds of the working places that are newly created are due to the small and middle sector. Costs associated with the creation of a working place in a small or middle company are reduced in comparison with those implied in realizing a working place in a great company. It realizes products and services at more reduces costs that great companies; the main factors which determines this difference being expenses that are constantly smaller, conventionally, a greater labor productivity in the conditions of the permanent presence of enterprising in the company.

From the regional analyze that was realized it can be noticed the fact that the working force occupied in the SME will be focused in the region Bucharest – Ilfov, as well as in North – West and West region. So, Bucharest – Ilfov has only with 69% more working force that is occupied in SME than the average of the country, being followed by Center and West region. The North- East region, namely South Muntenia as well as South West Oltenia can be proud with similar numbers. The correlation between the number of SME to 1000 inhabitants, in the eight development regions and the increasing rhythm of the degree of occupying the working force in the same regions, is very tight and obvious.

The economical - social arguments which derivates from the role that SME play in the economical structure contributes to the fundamentals of the need to support the development of SME sector with the purpose to exceed the mistakes of the market and specific difficulties: reduced dimensions and economical – financial force to face concurrency of the free market; the reduced access to financial resources or at national programs of support; reduced capacities of research, development, innovation, technology, etc.

For a better understanding of the modality in which small and medium sized enterprises functions, of the factors which determined their apparition, as well as the modality in which this influences the local development have been realized in several case studies on some SME situated in the rural area, as well as in the urban environment. In all cases a questionnaire has been applied to entrepreneurs, the use of this instrument presenting a series of advantages: direct knowledge of the reasons of entrepreneurs to start a business and of the local factors which came in the support of choosing the location of the enterprise, the evolution of the company along time, observing on the field its impact on local development, etc.

As a result of those mentioned above, we can state that the objectives mentioned initially as part of the research project have been reached in a great part.

The apparition and development of small and medium sized enterprises in our country, after 1990, their dynamics and differentiate distribution was determined by a

series of factors. These factors can be grouped in two categories: internal factors, which take into account the capacity of the entrepreneurs to observe and put good use to the opportunities offered by the environment and the external factors, which belong to economical, political and social macro and micro environments, in which developed the initiatives of the entrepreneurs and which favored or disfavored in some cases the apparition and development of small and middle size enterprises, namely, high economical and human potential, the entrepreneur tradition, entrepreneur culture, local business environment, etc.

The characteristics of the economical environment have a very important role in the development of the entrepreneur sector in a region.

If before 1989, in our country was tried the annihilation of the entrepreneur spirit, starting with '90, in the conditions of transition towards a market economy, the development of the entrepreneur sector become an important component of the economical restructure politics, which influences in a positive manner the rhythm of durable economical increase. This way, on the fund of gradual outlining of the entrepreneur sector, as a result of development of a favorable economical, political and social environment, as well as more powerful assertion of its importance in regional economical development, stimulation and development of SME become a priority in the economical development of each region. The differentiated development degree of this sector at the level of each region was powerfully influenced by a series of local factors which impelled or stopped the process of apparition and development of SME, but, especially, the modality in which enterprising persons managed to realize the opportunities offered by that space.

From analyzes realized, it was observed the fact that in 2007, over 1.500 small and medium sized enterprises took advantage of the financial support as part of the resort Ministry, through financing programs which collected 75 millions lei. The programs of financial support that were developed by the Ministry aimed the development of the entrepreneur spirit, the realization of the modernization and re technology investments, the support of the export and implementation of the quality system, as well as facilitating the access of small and medium sized enterprises at services of instruction and consultancy. The biggest part of the money reached the program for investments of the newly founded companies and for modernization. This program took advantage of 43.6 millions lei. To realize this thing, the ministry concluded collaboration conventions with nine banks that will ensure the financing and about 2.200 companies submitted projects to obtain non refundable financial allowances. Besides this support, the ministry gave 9,6 millions lei for the payment of some sums at the reinvested gross profit. The development of the activities of commercialization market products took advantage of funds with value of 6 millions lei and for support of SME, in development of exports was given 8 millions lei.

Year 2008 will bring the launching of the program "Increasing the Economical Competition".

For 2008, small enterprising persons will beneficiate of about 100 millions lei that were allocated from funds of the Ministry for SME, Commerce, Tourism and Liberal Professions. The development of commercialization of products and services takes advantages of the highest amount, and that is 30 millions lei, meanwhile supporting the foundation of SME beneficiates of 25.4 millions lei. Also, support through funds as a result of the reinvestment of the gross income will take advantage of a budget of 20 millions lei.

For year 2008, over 800 millions euro will be available through program “Increasing the Economical Competition”. Great part of this money is nonrefundable funds. For region Bucharest - Ilfov, the amount of the financial allowance that will not be repaid, will be up to 60% of the value of the investment for small enterprises, meanwhile in the rest of the regions, the amount will be of 70%. In case of middle enterprises, allowances decrease with 10%, namely up to 50% for Bucharest - Ilfov and 60% for the rest. Expenses connected with the elaboration of strategies, feasibility studies, financial analyzes, development plans can also be discounted as part of this program. Very important is the fact that, once this project was approved, money must be used in conformity with assumed investments plans, on the contrary UE does not discount investments. The rules upon which these funds will be granted is that first of all will be made investments from own funds, and only after European money will be discounted. Necessary own funds can be obtained through bank credits, granted by National Fund of Guarantee Credits for SME.

An important step for SME is that according to which a number of five such companies wish to be listed at the Stock Exchange Bucharest in 2008. In my opinion I think that listing at the stock exchange of the first Romanian SME will be possible at the end of January or beginning of month February 2008. I think that the Stock Exchange Bucharest will not impede, they showed interested of this process. The only persons that impede are enterprising persons who do not understand that they can obtain capitalization from the exchange and neither the association is beneficial. The listing conditions are at least three years of economical activity, a relevant affairs history, to be joint stock companies and to have declared, in the constitutive documents, a sector of activity in conformity with CAEN code. From the things not realized in 2007 can be mentioned the Sector Operational Program “Increasing economical competition”, with funds from European Union. This must be launched in 2007, but the notices of the European Commission will arrive only in 2008. Funds on 2007 are not lost and can be spent also in 2008 if there will be projects.

Financing micro enterprises has as purpose supporting the continuation of the restructuring process and economical recovery of the areas in decline, especially of small and medium towns, as this creates new working places.

The social – economical arguments that are derivate from the role that SME play in the economical structure contributes to the substantiation of the support need of development of the SME sector, with the purpose to exceed the failure of the market and the specific difficulties: reduced dimension and economical – financial source to face concurrency of free market; reduced access to financial resources or to national programs of support; reduces research capacities, development, innovation and technology.

But, the economic reason declares that a non distortional concurrent is the best stimulant of the technical efficiency and innovation by companies and the most efficient modality to realize work separation and an accentuated specialty. State aid might contribute to the surviving of the less efficient economical agents, in our case small and medium sized enterprises, to the disadvantage of the efficient ones, namely is the case of great companies. In this context, the control of the state aid might have an impact on daily life and prevents the dissipation of the public funds contributing to increasing the living level, preventing the misrepresentation of the concurrency and giving an impulse to the healthy and supporting economical growth.

So, there appears a main question: when a state aid represents a misrepresentation of concurrence as a state aid to produce misrepresentations, goods or services market

must represent an imperfect concurrency; in the conditions of the perfect concurrency, the beneficiary companies of a state aid might obtain increased profits, on conditions that all the other economical agents might confront with the same concurrence discipline.

In these conditions, the equity between companies and the preoccupation of the tax payers regarding favoritism presents certain problems, but not self efficient. More, if the aid is paid to exceed a failure of the market, this does not include distortions: its purpose is exactly the restoration of the concurrency.

The control of state aid is useful as a real functioning of the internal market, in which concurrency is not distortional. Still, unlike the other anchors of the concurrence politics, in the field of state aids were allowed major exceptions for many years, and these distorts powerfully the concurrency. In the same time are followed a series of other objectives of economical politics, which makes difficult the explanation of the economic reason of state aids. For example, the attitude that is generally favorable towards national aids for research – development can be easily justified, taking into account the failures of the knowledge market, but the types of the other derogations is hardly justified. It is the case of economical sectors from: ferrous metallurgy, railways, agriculture, coal, fishing, etc whose continuous saving operations must be powerful in politics.

Generally, a region has access only where the regional environment sustains the development of a strategy for certain industries and where these have a competitive advantage. Strategy has success where the implementing environment is so dynamic and provocative, and where the environment stimulates and encourages the investment and extension of advantages. The identification and development stages of some competition advantages can be seen as a base for the regional development and can aid at the supply of a favorable dynamism of the individual companies and industrial sectors which will exploit their values and can create working places and even increase incomes for a region as a whole.

An essential role in development of small and medium sizes enterprises is due to local authorities who can attract investors through consultancy services regarding local business opportunities, but also through facilities granted to the ones that invest in those areas. Even if there is an interest at the level of all communities to attract possible investors which might found small and medium sized companies, the low access to infrastructure of many localities represents a restrictive factor.

Arguments through which will be reflected the impact of the entrepreneurial sector on the regional development is the fact that:

- as a rule, generates the greatest part of PIB, between P55% - 95%;
- offers working places for the majority of the occupied population;
- generates in a great proportion the technical innovations that will be applied in economy;
- presents the highest dynamism in the conditions of market economy, situation certified by the evolution of the number of SME, of the turnover volume and the size of occupied working force, sensible superior to great enterprises;
- realizes products and services at more reduced costs than great companies, main factors which determines this difference being expenses smaller constantly conventional, the superior volume and intensity of work in conditions of the permanent presence of the enterprising in the company and, as a rule, more intense motivation of the personnel;

- prove increased flexibility and adaptability at the requests and exchanges of the market, being favored of the reduced size, the rapid decisional process, specific enterprising and implication in actual activities;
- represents one of the main sources of income of the state budget (taxes, VAT, etc)
- offers the possibility of professional and social fulfillment of an appreciable part of the population, especially the most active and innovative sector;
- ensures the main constitution of an economical basis that is advantageous to market economy, characterized by flexibility innovation and dynamism;
- represents the germs of the future great companies, especially in new fields of economy, in its top branches based on performing techniques and technology;
- the actual tendencies of technical, economical and social nature favors the creation of SME. I refer to the minimization of equipment, robotics, information, development of communications and transports, increasing the degree of preparation of the population, rapid reduction of the difference of life conditions between areas and localities, administrative decentralization, that not only makes possible, but also generates superior economical performances, first of all through small and medium size companies.

The evaluation of the impact of the entrepreneur sector on the regional development, was made through the analyze of the optimal capitalization of local natural resources, of the surplus of working place, of exchanges that appear in the internal structure of localities (buildings, transport infrastructure, development of the sector of services) but also of other indirect effects at micro scale level. Also, the analyze of some performance indicators of SME, as will be: employee's number, turnover, value of the investments at the level of diverse categories of enterprises contributes to underline its role in the economic dynamic of the region.

Pointing the special importance of SME in the conditions of the contemporary economy does not mean the underestimation of the roles of great companies.

The economy of each country, to be performing, requires a powerful component of great enterprises, especially in the industrial and transports field. The economic relation shows the existence of some powerful relations of complementarities with great companies, on one side, and SME on the other side. An economy is healthier and performing when represents an equilibrated structure not only in the sector, but also dimensional, being obtained effects of superior synergy.

Any authentic market economy is formed from small and medium size enterprises, as well as from great enterprises. Analyzes realized showed the existence of some intense relations of complementarities between SME and great enterprises. The explanations of this status are multiple and we present them grouped in two categories.

Small and medium seized companies are essential for great enterprises as:

- SME represents most numerous customers, which buys the majority of products and services of great enterprises;
- SME supplies to great enterprises, the majority of pieces, subassemblies, assemblies, and an appreciable part from raw materials, materials, energy and utilities that they need;
- a part of the working force used in great enterprises worked previously in SME;
- SME absorb the majority of unemployed produced by great enterprises;
- SME generates the greatest part of great enterprises;

SME, in their ensemble constitutes the economic warp in which will be integrated great enterprises, being often an economic bond. SME, through their flexibility, offers increased adaptability to the assembly of a country.

Great companies are essential for SME because:

- supplies an important part from raw materials, materials, fuels, energy, components that SME need;
- represents important customers for products and services of SME;
- is a school where will be formed and improved an appreciable part of enterprising, managers and specialists from SME;
- supplies information, know-how, top technology and knowledge of SME;
- represents managerial and technical models for numerous SME;
- sometimes participates at the formation of the specialists from SME, when they need their products;

The complementary character of these relations is operational through a variety of modalities:

- selling – purchasing contracts;
- subcontracting contracts;
- strategic alliances having form of franchise, cooperation agreement on long term, etc;
- business incubators;
- technological parks.

As a conclusion, the functionality and performances of any economy are differentiated by the existence of companies of all dimensions and their permanent, intense and on multiple plans co-operation.

Expectations regarding small and medium sized enterprises (SME) increased rapidly on world plan, in countries in course of development, as well as those developed.

After a period of great fascination for multinational corporations, that extinguished rapidly, economical publications from the entire world, as well as political and economical leaders, have underlined, in the last years, the importance of SME sector for developed market economies, as well as for those in transition. Among the main reasons for this renewal is the modality of thinking of the managers and economists from countries with a developed market economy and a new perception of the economic opportunities.

The importance of standardized mass production was already diminished for a period of time, due to the orientation for quality in management and towards the capacity to adapt the production to individual needs, in continuous change, of more and more powerful consumers.

The main fields of action are the entrepreneurship, which signifies more and more performing small and middle sized enterprises. This option is justified by the congruency between the characteristics of small and middle sized enterprises, and economy based on knowledge. The small number of components, reduced dimensions of the tangible assets, the smaller complexity of activities and thin structures of SME make easier the positioning in foreground of the preoccupations, decisions and their actions, of the knowledge resource. The entrepreneurial spirit, the intense interpersonal relations and the pronounced group cohesion, adaptability, flexibility and organizational dynamism are definition elements for economy and for the company based on knowledge, which can be found in the traditional modality in small, dynamic enterprises.

The existent world experience shows the special role and the importance of small and middle sized enterprises as part of national economies.

After the ascension in the last three decades, it will be appreciated that small and middle sized companies will constitute in the following period the main vector of the economic progress, in developed countries, as well as in transition ones. On the other side, the attributes of the small and middle sized companies, situates this type of organization in the foreground of the economical development. On the other side, the coordinates which define the new configuration of the world economy are favorable to the expansion of small and middle sector.

For great companies, SME represents the world that they came from and where concurrence for persons will appear, SME represents a first working place, a stage in carrier. They are also a first step towards the world of enterprising persons. For economy, as an ensemble, SME are releaser of new ideas and new assembly of processes which accelerates increasing on the basis of using resources in a more efficient manner.

The role of small and middle sized companies is recognized in the entire world fro their unique contribution at the economical development. Developed countries as well as the ones in development process realize that SME and enterprising persons play an important role in the industrial development of a country. So, there is no surprise that political strategists have often considered that SME con constitute economical re-launching.

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