

ENTREPRENEURSHIP IN TERMS OF THE LEVEL OF ECONOMIC COMPETITIVENESS

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Abstract

Considering that from a qualitative point of view, human activity in general, has recorded a significant leap along with the debut of entrepreneurial activities, from the "creative destruction" perspective through competition of Joseph Schumpeter until present, entrepreneurial theory and practice reveals a generally accepted point of view: entrepreneurship, regardless of the form under which it is carried out, represents the engine for the market economy system, the determining factor of competitiveness growth and sustainable economic growth.

Once aware of the positive impact it has on the economy and society, entrepreneurship has and is being promoted at a national level, European and global by creating, coordinating and implementing a strategic framework, legislative and financially favorable.

However, the socio-economic data analysis shows that, economies having an analog development level, record different entrepreneurial rates, that similar entrepreneurial activities have a different impact on economic development or that, as the economies record a higher development level, the interest for initiating new businesses declines.

From this perspective, the purpose of this paper is to underline and promote the entrepreneurship's role as a fundamental source for increasing growth potential and national and regional development in the long term, and to highlight, based on empirical data, the interdependency, the qualitative and quantitative correlation between the entrepreneurial rate and the competitiveness level of a country.

Keywords: *entrepreneurship, economic development, entrepreneurial rate, sustainability, Global Competitiveness Index.*

1. Introduction

Sustainable economic growth, a complex process, multidimensional, which generates the general progress of humanity as a result of positive changes both from the macroeconomic results' point of view and from the social structures, national institutions and population attitude, represent an essential for the struggle to solve the current economic, social and environmental problems (social inequalities, poverty, global warming).

From this perspective, studies, based on empiric data, reflect the same conclusion: the volume, the structure, the quality and the intensity of entrepreneurial activities decisively affect national economies competitiveness and increasing competitiveness represents a key factor for economic development. Under these circumstances entrepreneurship and economic competitiveness represent topics that are intensely debated and under the attention of economic analysts and decision makers, being thus promoted at a national, European and global level through the creation, coordination and implementation of a strategic framework, legislative and financially favorable.

Thus, the entrepreneurial theory and practice reveals an overall accepted aspect: entrepreneurship, regardless of the form in which it is performed, is represents the engine of the market economy system because, through "its creative destruction" results in progress, continuous modernization of the society,

which creates the prerequisites for growth, development and thus for an increase in economic competitiveness. This happens because, increasing employment and accessing new markets, increase in productivity and innovation, economic growth, increase of social cohesion by reducing poverty and exclusion are undeniable results of the entrepreneurial process.

Reality has shown, however, that similar entrepreneurial initiatives induced different social and economic effects, which led to the conclusion that the effectiveness of the entrepreneurial activities is not only influenced by the main vector, the entrepreneur, but also by a number of other factors, some controllable, others not. Since it is well known that, in terms of the exogenous factors category, economy's state and the socio-political conjuncture are decisive aspects, we conclude that the opposite is true - the level of competitiveness of the national economy influences the extent, the structure and typology of the entrepreneurial process in a country.

In conclusion, between entrepreneurship and economic competitiveness there is a mutual causal relationship.

Given this "spiral" generated by the entrepreneurial process, the ranking of national economies according

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2. The semantic approach of concepts entrepreneurship and economic competitiveness

If, in regards the importance of the entrepreneurial activities in literature the views are similar, the situation isn't similar regarding the concept's etymology. Therefore, entrepreneurship, as will be seen in the following lines, passed from a semantic point of view, through intermediate stages, that gradually led to the formulation of a complex definition, complete and enlightening.

Thus, the introduction in literature of the term entrepreneurship is attributed to the French economist **Richard Cantillon** (1680-1734), in his paper "Essay on the general nature of trade"; the paper considered by William Stanley Jevons, as being "the cradle of political economy".

In Cantillon's view, the entrepreneur was an intermediary between capital and work force, a speculator who undertakes risks, without bringing into question the innovative element.

Subsequently, JB Say has helped popularize the term but from the perspective of the creators of new organizations¹.

Adam Smith, in his paper "Wealth of nations" does not use the term "entrepreneur", but a similar concept of "entrepreneur"(undertaker), a concept that encloses the persons founding an organization for commercial purposes. For Smith, entrepreneurs are those who react to economic changes and convert the demand into offer².

In 1890, Alfred Marshall, in his reference paper "Principles of Economics" in analyzing the role of entrepreneurship he brings into question, besides providing goods and innovation, the progress.³

The conceptual framework is complemented by **Joseph Schumpeter** (1883-1950), who revolutionized the entrepreneurship theory with his paper "Theory of Economic Development," where he defined the entrepreneur as an innovator, leader, an agent of change⁴. Furthermore, Schumpeter used the term "creative destruction" to express the fact that some economic agents are removed and replaced by those who bring new and more efficient methods and techniques⁵. Entrepreneurship is thus presented as the main engine of the economic system.

Currently, although there is no single point of view in regards to the definition of entrepreneurship, it prevails the idea that entrepreneurship is the process whereby a legally constituted entity, with

activities in various fields, generates added value through the action of innovative people, capable of capitalizing opportunities and also of undertaking the responsibility of immanent risks.

Once aware of the positive impact of entrepreneurship on the economy and society, entrepreneurship has been and is promoted at a national, European and global level through creating, coordinating and implementing a favorable strategic, legislative and financial framework, adjusted the level of economic competitiveness.

The concept of competitiveness is mainly linked to productivity and economic performance, but, in recent years the focus is on a new look - sustainability. Taking into account all relevant factors and the relationships between them, sustainable competitiveness represents the set of institutions, policies and factors that make a nation to stay productive in the long term, while ensuring social and environmental sustainability⁶.

A paper of reference, recognized as the world leader, in terms of comparing the factors affecting competitiveness, is the Global Competitiveness Report, developed and published annually by the World Economic Forum. This represents a ranking of the most competitive 140 countries in the world based on the Competitiveness Global Index, indicator that resulted from the aggregation off three categories of factors (key factors of competitiveness, growth factors of efficiency and factors of innovation and business sophistication, broken down into twelve pillars of competitiveness - institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, efficiency of commodity markets, the effectiveness of the labor market, development of financial markets, the level of technological readiness, market size, the sophistication degree of business and innovation.

Based on these factors, Michael Porter, professor at Harvard University and expert of international business strategies, identified three development stages of national economies, according to the level of economic competitiveness⁷:

- **Economies based on production factors**, with low income (in 2003 reporting was done on GDP / capita <\$ 6,800), where the primary factors of production, especially cheap labor force and natural resources are the main sources of competitive advantage. Within these economies, for improving the business environment, the focus is on improving

¹ Tino Sanandaji, Nima Sanandaji, *SuperEntrepreneurs And how your country can get them*, Centre for Policy Studies, April 2014, Printed by 4 Print, 138 Molesey Avenue, Surrey, pp. 4-8.

² Idem.

³ Văduva Sebastian, *Entrepreneurship. Practices applied in Romania and other countries in transition*, Economic Publishing, Bucharest, 2008.

⁴ Idem.

⁵ Tino Sanandaji, Nima Sanandaji, op. cit., , pp. 4-8.

⁶ Foundation Post - Privatization innovation and entrepreneurship pillars of competitiveness , 2013 , p. 17.

⁷ Michael E. Porter, *Building the Microeconomic Foundations of Prosperity: Findings form the Microeconomic Competitiveness Index* , in Global Competitiveness Report 2002-2003, World Economic Forum, Geneva, Switzerland, 2003, pp. 32 – 34.

the infrastructure and the legislation, reducing the entry barriers in business and strengthening the antitrust policies, as a result aspects like encouraging clusters and venture capital enterprises, cutting-edge technology, research and innovation do not constitute priorities.

- **Economies based on investments**, with average income (in 2003 reporting was done on a GDP / capita between hard \$ 6,800 and \$ 20,000), where the increased efficiency due to increased industrialization and to economies of scale represent the determining factor for increasing competitiveness. Once overcome the challenges of economies based on production factors, in this stage of development, to improve the business environment, are concerned aspects such as fostering the modernization of the financial sector, encouraging clusters and the research- development sector, increasing technologization, efficiency and quality of the productive sector.

- **Economies based on innovation**, with high income (GDP / capita > \$ 20,000), where the ability to achieve innovative products and services to the limit of global technology using the most advanced methods becomes the dominant source of the

competitive advantage. At this stage, the tertiary sector develops, focusing on research –development, which increases thus the potential for innovation.

Porter's model reflects therefore from a theoretical standpoint, the mutual influence of the two key indicators of economic development – competitiveness and entrepreneurship, two variables extensively studied, analyzed and debated.

3. The correlation between entrepreneurship and economic development - comparative empirical analysis

The applicability and practicability of Porter's model is demonstrated by its use in the development of the most known annual survey on entrepreneurship, The Global Entrepreneurship Monitor.

Subsequently, the methodology was completed, perfected, so that, in The Global Competitiveness Report 2015-2016, the typology of national economies is presented in the table below:

Table 1: Stages of development of national economies in terms of the degree of influence of the pillars of the global competitiveness index and the GDP / capita

<i>Competitivy level</i>	<i>GDP per capita (US \$)</i>	<i>Key factors of competitiveness</i>	<i>Factors increasing the efficiency</i>	<i>Innovation and business sophistication factors</i>
<i>Level I: economy based on factors</i>	<i>< 2000</i>	<i>60%</i>	<i>35%</i>	<i>5%</i>
Transition from Level I to Level II	2000 – 3000	40 - 60%	35 - 50%	5 – 10%
<i>Level II: Economy based on efficiency</i>	<i>3000-9000</i>	<i>40%</i>	<i>50%</i>	<i>10%</i>
Transition from Level II to Level III	9000-17000	20 – 40%	50%	10 – 30%
<i>Level III: Economy based on innovation</i>	<i>>17000</i>	<i>20%</i>	<i>50%</i>	<i>30%</i>

Each of the three factors of competitiveness is therefore necessary increasing the level of development of an economy, but, as the economy progresses, the business sophistication degree increases, innovation acquiring an increasingly important.

According to the assessments presented in the Global Competitiveness Report 2015-2016¹ and used in developing The Global Entrepreneurship Monitor, a total of 38 countries have economies driven by innovation, the most advanced being Switzerland (for the sixth consecutive year), Singapore, Finland, Germany, USA, Sweden, Hong Kong, Netherlands, Japan and Britain which ranks top ten in the world rankings according to the general index of competitiveness². Among the European

Union member states, 21 states are part of the innovation-driven economies. Other 31 countries of the 140 countries assessed are classified as economies driven by efficiency (Albania, Bosnia and Herzegovina, Bulgaria, Ukraine, Namibia, Serbia, South Africa, Thailand), in the third category, the economies driven by factors, being present 35 countries, but not in Europe (Bangladesh, Cambodia, Cameroon, Ethiopia, Pakistan, Senegal, Tajikistan, Uganda, Zimbabwe). Beside these three categories, as could be observed in

Table 1, there are two other groups of states that have levels of competitiveness in transition phases - either between stages 1 and 2 (a total of 16 economies, such as Moldova, Morocco Nigeria, Iran, Venezuela, Vietnam, Mongolia, Saudi Arabia,

¹ Klaus Schwab, *The Global Competitiveness Report 2015–2016*, World Economic Forum, Geneva, 2015, p. 38.

² Klaus Schwab, *The Global Competitiveness Report 2015–2016*, World Economic Forum, Geneva, 2015, p. 38.

Algeria, Azerbaijan) or stages 2 and 3 (a total of 20 economies - Romania is included among them, along with other countries in the region such as Poland, Croatia, Montenegro, Turkey, Russian Federation, Mexico, Brazil, Lebanon, Argentina, etc.).

In terms of the Global Competitiveness Index, Romania ranks 53 (4.32 points out of 7), climbing six positions compared to last year, surpassing countries such as Hungary, Bulgaria and Slovenia. Although our country has a good place in terms of the macroeconomic environment (34th place) and market size (ranked 43), the situation is not favorable in terms of business growth (88th place). Before Romania are countries like the Czech Republic (31), Poland (41), Russia (45) and Turkey (51).³

In order to simplify the exemplification of the correlation between the typology of national economies in relation to the stage of economic development in terms of competitiveness and entrepreneurial rates; we will consider further on, five stages of development, as follows: stage 1 for level I - factor based economies, stage 2 for economies under transition from level I to level II, stage 3 for level II - economies based on efficiency, stage 4 for economies under transition from level II to level III and level III and stage 5 - economies based on innovation.

Also, given that economies with a similar development level have different entrepreneurial rates, that similar entrepreneurial activities have a different impact on national economies or that, as the economies register a higher development level the interest for initiating a business declines, a differentiated analysis of entrepreneurial activities is required, depending on the duration of the operating activities, the manifestation forms, incitement factors or the structure of the active population involved, the spirit and entrepreneurial education of the area, in general.

Table 2: Stage 1 - Economies based on factors

Country	Early-stage Entrepreneurial Activity Rate (TEA)	Employee Entrepreneurial Activity Rate (EEA)	Established Business Ownership Rate (EBO)	Discontinuation of Businesses Rate (% of TEAB)
Burkina Faso	29.8	0.6	27.8	8.1
Cameroon	25.4	0.7	12.8	9.0
Senegal	38.6	2.3	18.8	13.3
Philippines	17.2	2.3	7.3	12.2
India	10.8	0.3	5.5	2.3
Medium rate	24,36	1,24	14,44	8,98

Source: The Global Competitiveness Report 2015–2016 și 2015/16 Global Report, Global Entrepreneurship

Accordingly, further on we will relate to the empirical data presented in the Global Entrepreneurship Monitor since, for elaborating the annual studies, a multidimensional methodology is applied, detailing the entrepreneurial rates according to a wide range of influence factors. Thus, depending on the duration, the differentiation between Early Stage entrepreneurial activity (TEA) and Establishes Entrepreneurial Activity (EBO) can be made. Under these conditions the TEA rate under formation or new (with a lifespan less than 3.5 years) from the total adult population (18-64), while EEA rate indicates the proportion of those owning an organization older than 3.5 years, from the total adult population. The analysis takes into consideration also the manifestation of a new form of entrepreneurship, Employee Entrepreneurial Activity that refers to the entrepreneurial employees who are also currently involved in the development of such new activities, and also, the ration of discontinuation of the early businesses.

As it can be seen detail in Table 2, in average, for the case of economies based on production factors, the early entrepreneurship outweighs the consecrated entrepreneurship and, of nearly three times higher than the average innovation-based economies. Moreover, the fact that they drop nearly a third of new businesses, proves that the business environment in these countries still isn't auspicious, favorable to investors.

The very low rate of entrepreneurship among employees, shows a low tolerance of employers to the employees proactive attitude, which underlines, once more, underdeveloped economies' deficiencies in terms of economic education and entrepreneurial culture.

As shown by the figures in Table 2, the situation does not change substantially in economies under transition from level I to level II.

³ <http://ccir.ro/2015/09/30/raportul-competitivitatii-globale-2015-2016-2/>, accessed on 15 April 2016

Table 3: Stage 2 - Economies under transition from level I to level II

Country	Early-stage Entrepreneurial Activity Rate (TEA)	Employee Entrepreneurial Activity Rate (EEA)	Established Business Ownership Rate (EBO)	Discontinuation of Businesses Rate (% of TEAB)
Vietnam	13.7	0.6	19.6	3.7
Botswana	33.2	1.6	4.6	14.7
Iran	12.9	1.0	14.0	6.7
Kazakstan	11.0	0.9	2.4	3.1
Average rate	17,7	1,025	10,15	7,05

Source: The Global Competitiveness Report 2015–2016, 2015/16 Global Report și Global Entrepreneurship Monitor, 2016

For economies based on efficiency, as for those based on innovation, reducing the early entrepreneurship rate, without being accompanied by an increase in the consecrated entrepreneurship

rate, shows that these economies are characterized by a high level of social security for the population that, under these conditions is no longer interested in initiation a business, on their own.

Table 4: Stage 3 - Economies based on efficiency

Country	Early-stage Entrepreneurial Activity Rate (TEA)	Employee Entrepreneurial Activity Rate (EEA)	Established Business Ownership Rate (EBO)	Discontinuation of Businesses Rate (% of TEAB)
Egypt	7.4	1.3	2.9	6.6
Morocco	4.4	0.4	5.2	2.2
South Africa	9.2	0.3	3.4	4.8
Tunisia	10.1	1.9	5.0	7.2
China	12.8	1.4	3.1	2.7
Indonesia	17.7	0.2	17.1	3.7
Thailand	13.7	0.7	24.6	3.4
Barbados	21.0	1.1	14.1	3.8
Colombia	22.7	2.3	5.2	7.2
Ecuador	33.6	0.9	17.4	8.3
Guatemala	17.7	1.2	8.1	4.0
Peru	22.2	0.7	6.6	8.8
Puerto Rico	8.5	0.6	1.4	0.9
Bulgaria	3.5	0.4	5.4	1.4
Macedonia	6.1	2.3	5.9	2.3
Average rate	14.04	1.04	8.36	4.49

Source: The Global Competitiveness Report 2015–2016, 2015/16 Global Report și Global Entrepreneurship Monitor, 2016

Table 5: Stage 4 – Economies under transition from level II to level III

Country	Early-stage Entrepreneurial Activity Rate (TEA)	Entrepreneurial Employee Activity Rate (EEA)	Established Business Ownership Rate (EBO)	Discontinuation of Businesses Rate (% of TEAB)
Lebanon	30.1	3.3	18.0	10.6
Malaysia	2.9	0.3	4.8	1.1
Argentina	17.7	2.4	9.5	6.3
Brazil	21.0	1.0	18.9	6.7
Chile	25.9	5.2	8.2	8.5
Mexico	21.0	1.2	6.9	6.4
Panama	12.8	0.5	4.2	2.2

Uruguay	14.3	4.2	2.1	4.7
Croatia	7.7	4.9	2.8	2.9
Hungary	7.9	2.1	6.5	2.8
Latvia	14.1	3.3	9.6	3.4
Poland	9.2	4.0	5.9	2.7
Romania	10.8	4.6	7.5	3.3
Average rate	15.03	2.85	8.07	4.74

Source: The Global Competitiveness Report 2015–2016, 2015/16 Global Report și Global Entrepreneurship Monitor, 2016

We note that for the case of innovation based economies, the entrepreneurial spirit development and the increase in the Entrepreneurial

Employee Activity Rate, due to a change in employers attitude, that support in this stage new ideas and constructive initiatives of their employees.

Table 6: Stage 5 - Economies based on innovation

Country	Early-stage Entrepreneurial Activity Rate (TEA)	Employee Entrepreneurial Activity Rate (EEA)	Established Business Ownership Rate (EBO)	Discontinuation of Businesses Rate (% of TEAB)
Australia	12.8	8.5	8.7	4.5
Israel	11.8	6.5	3.9	4.6
Korea	9.3	2.4	7.0	2.0
Taiwan	7.3	4.1	9.6	3.8
Belgium	6.2	6.1	3.8	1.9
Estonia	13.1	6.3	7.7	2.0
Finland	6.6	5.8	10.2	2.7
Germany	4.7	4.5	4.8	1.8
Greece	6.7	1.0	13.1	3.4
Ireland	9.3	6.6	5.6	3.1
Italy	4.9	1.4	4.5	1.9
Luxemburg	10.2	6.4	3.3	4.2
Netherlands	7.2	6.3	9.9	2.1
Norway	5.7	9.9	6.5	1.6
Portugal	9.5	4.0	7.0	3.2
Slovakia	9.6	3.6	5.7	5.4
Slovenia	5.9	5.6	4.2	1.8
Spain	5.7	1.1	7.7	1.6
Sweden	7.2	6.4	5.2	2.7
Switzerland	7.3	6.5	11.3	1.7
United Kingdom	6.9	4.1	5.3	2.3
Canada	17	7.1	8.8	5.0
USA	27	7.0	7.3	3.6
Rata medie	9.21	5.27	7	2.91

Source: The Global Competitiveness Report 2015–2016, 2015/16 Global Report și Global Entrepreneurship Monitor, 2016

But, in all stages of development high differences are recorded between the entrepreneurial rate within the same level of development, as follows:

- Burkina Faso, a country placed in the group of factors based economies record high rates, for both early entrepreneurship (29.8) and for the consecrated (27.8), while India records a rate of consecrated entrepreneurship of 5.5;
- In the category of efficiency based economies, the early entrepreneurship rate is of 4.4 in Morocco, while in Ecuador was of 33.6, Colombia of 22.7;
- In the innovation based economies category, the early entrepreneurship rate is higher than the one of the consecrated in countries like Israel (11.8 compared to 3.9), Ireland (9.3 compared to 5.6), etc.

All these cases that contradict the prevailing developments, reinforce the idea that there are no theories, laws generally applicable to characterize the economic and any other activities where the focus is on the individual, the active and determinant factor. Therefore, in the entrepreneurial activities analysis and especially in establishing policies and strategies to stimulate it, should be taken into account the subjective character of decisions and of economic agents reactions such that, the tools for analysis and action to be adapted to the level of development of the analysed area, to the customs and period and area specifics.

3. Conclusions

The comparative analysis of the theories, but mostly of the empirical data concerning entrepreneurship, competitiveness and economic development as a culmination of the positive dynamics of the two processes multi-criteria confirms the interconnection, interdependence of

them, thus being impossible to establish a relationship of cause and effect.

Given that the triad entrepreneurship - competitiveness - economic development is essential to human progress, this connection should be in decision makers' attention, at a national and international level, so that to formulate and implement realistic policies and strategies, viable, adapted to the circumstantial situations.

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