

## ROLE OF THE ENTREPRENEURIAL SECTOR IN THE REGIONAL DEVELOPMENT. CASE STUDY: GORJ COUNTY

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**Abstract:** The entrepreneurial sector has hardly existed in Romania before 1989. Usually this was restricted to rural spaces, excluded from the cooperative system, and generally, it did not extend beyond a familial level. The connection between the entrepreneurial initiative and the functional structuring of the geographic space is obvious in the light of the changes met at the level of the territorial system components and of the relations among them. The drastic regression of the mining industry, after 1990, spatially resulted into a decrease of regional and local economies: for example, in 2005, the Gorj County repositioned into the ninth place. Gorj County is the owner of certain competitive advantages, namely, natural resources and the relatively low costs in exploiting them. This current situation offers a degree of stability to the economic development, which on long term could be questionable. The high dependence of the county and of its many towns and communes on the mining and quarrying sector may represent a high risk on medium and long term. However, given the relatively rapid restructuring process of the mining activities, the economic decrease was balanced by the contribution of the entrepreneurial sector. Worth mentioning is one of the territorial development roles played by the entrepreneurial sector which consisted in running detailed analyses based on a complex set of economic indicators. Results of these analyses, showed a crucial need for a strong entrepreneurial sector to be developed in order to reduce disparities generated by the economic decline following 1990. Presently, the numerous strategies initiated have been inefficient since an integrated global approach, able to benefit from the considerable territorial capital, is required.

**Key words:** Entrepreneurial initiative, Gorj County, Firms, Disparities, Growth poles

### Introduction

Understanding the relationship between the development of the entrepreneurial sector and the development of any geographical area is based on knowing a series of basic key theoretical concepts like disparities, entrepreneur and entrepreneurial initiative.

The concept of entrepreneur was intensely debated in the economic studies, especially after the year 1990 in which the emphasis was put on the role it plays in stimulating the local economies. According to

the Law no. 133 from 1999 an entrepreneur is a authorized physical person or a juridical person that individually or in association with other authorized physical persons or juridical persons organize into a commercial society in order to carry on an activity with the purpose of obtaining profit, by producing common goods, respectively performing services and selling them on the market in competitive conditions (The 1999 Law no. 133).

The entrepreneurial initiative is defined as being an aggregate of actions coordinated by a central idea that has as a final purpose the development of an economic activity.

The evaluation of territorial disparities is realized by reference to an already devised set

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of standards as a result of complex studies that concern the spatial-temporal context of the area that undergoes the analysis.

The entrepreneurial initiative in Romania has a series of features determined by the direct or indirect actions of the political system, relationship that has had two distinctive periods: before 1989 (when the political system wouldn't allow the development of the entrepreneurial sector, the entrepreneurial initiative was a punctual one crushed by many obstacles) and a second phase after this year, when through governmental policies an environment favourable for this economic sector was gradually developed.

The entrepreneurial initiatives, defined as being actions that are suppose to start businesses by assuming a series of risks and utilizing their own resources (Hoffman K., Russell R., 1994) represent the key elements for the economic development of a region. With the emergence of the new enterprises, important transformation will take place at the level of the components, relationships and structure of the respective area. The most obvious modifications will be observed at the micro-scale level where, due to the small expansion of the territorial systems and their functional homogeneity the reaction to change is more rapid (Ianoş I, 2000, page 62).

The emergence of entrepreneurial initiatives within a geographical area its dynamic and territorial distribution is different depending on a series of complex factors out of which we name a few: the entrepreneurial culture, the managerial culture and the resources of the geographical area.

For a good period of time, development was seen as a series of quantitative changes and quantifiable progresses concerning products and incomes as the only instruments were the international changes, mobility of factors, the increase of dynamism and the private and public institutions.

Between the entrepreneurial initiatives and the local development two types of relationship form: direct and indirect ones, which will be analysed according to the way in which they modify the geographical area.

The relationships between the entrepreneurial initiatives and local development are influenced by the type of environment in which they manifest themselves: the urban or rural environment. Within the urban areas, the high concentration of population and higher incomes allowed for the development of a large number of small and medium enterprises, especially within the tertiary sector. From this area the entrepreneurial spirit has propagated through cascade diffusion towards the suburban areas, towards localities situated across the communication axes, especially towards small and medium cities and lastly towards the rural areas with a low accessibility degree (Ianoş I, 2000, 65).

The general development level and the overall economic dynamic are the major explanations for the regional repartition and concentration of the entrepreneurial initiatives. In addition to this, the evolution of certain factors that concern the specificity of each area (historical, social, cultural, political, natural environment) can favour or on the contrary can block the spatial distribution of the activates. The econometric analyses are testing the hypothesis that when the economic development level of an area is high or the economic growth rate is sustained the chance for economic activates to establish themselves in a particular area is higher, thus the probability for a uniform distribution within that territory increases. In a study (Jula, Jula, 1998) that econometrically tests such a model for Romania it was established that on the long term (1950-1996) the regional imbalances correlate in a negative manner with the level of the economic development; more than that, this correlation maintains itself both in the periods of economic improvement and decline.

### **Human communities and the evolution of the SME sector in Gorj County**

The development strategy for Gorj County's main objective is the encouragement of the

Table 1. The structure of the SME sector in Gorj County

Year	SME/ 1000inh.	Micro	Small	Medium	Primary sector	Secondary sector	Tertiary sector
2004	14,2	89,2	8,8	2,0	3,1	17,3	79,6
2005	14,7	93,9	5,3	0,8	2,4	19,4	78,2
2006	14,8	93,8	5,5	0,7	2,5	20,1	77,4
2007	15,7	94,1	5,1	0,8	2,6	20,9	76,5

Source: The National Trade Register Office, 2009

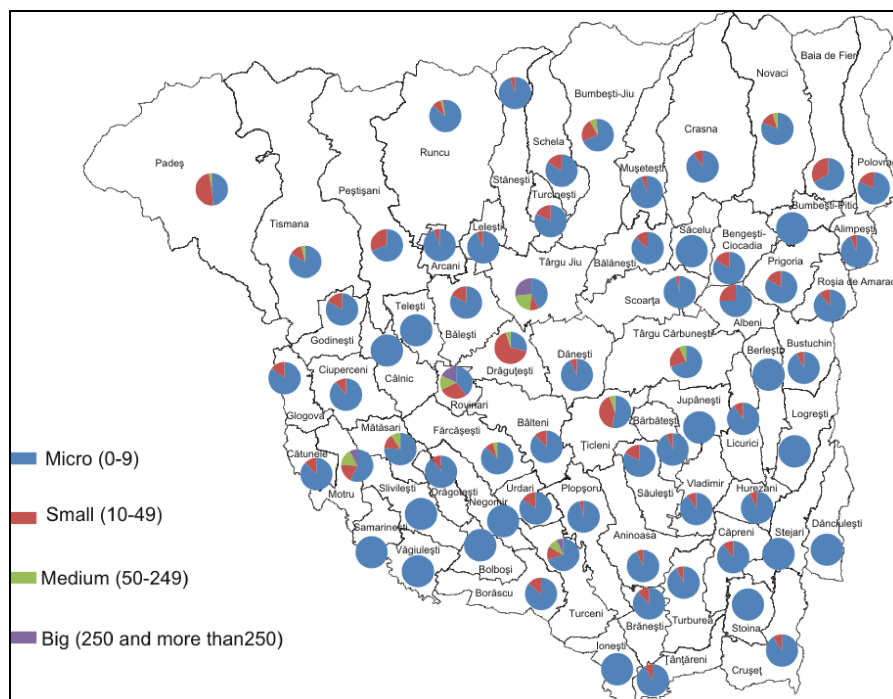


Figure 1. The structure of the enterprises according to the number of their employees

SMEs so that the gross domestic product per capita to reach the average value for Romania or at least 95% of this value, as a result of the diversification of the economic activities through the development of the SMEs sector, which should reach at least the average national value of 19.3 SMEs per 1000 inhabitants, attracting direct foreign investments, that need to add up to at least 5% of the total direct foreign investments per country and modernizing the education systems and professional training systems so that we can obtain an evolved labour force that is qualified and adapted to the market requests and modern technologies (Socio-Economic Development Strategy for Gorj County, 2007-2013, 2007) (Table 1).

The analysis of the existing relationship between the development of the territorial systems and the entrepreneurial initiative was based on a complex set of indicators and the processing of a series of questionnaires that were addressed to the local authorities, entrepreneurs and inhabitants of the representative administrative-territorial units. It is obvious that the number of SME/1000 inhabitants has suffered a slight increase in the period 2004-2007, but is still under the national average (19.4 in 2004 and 20.5 in 2007). Compared to 2004 one can note a tendency to increase the number of the SMEs and especially their accumulation in the productive sector. The rate in which the new enterprises appear was influenced by the legislative changes regarding the

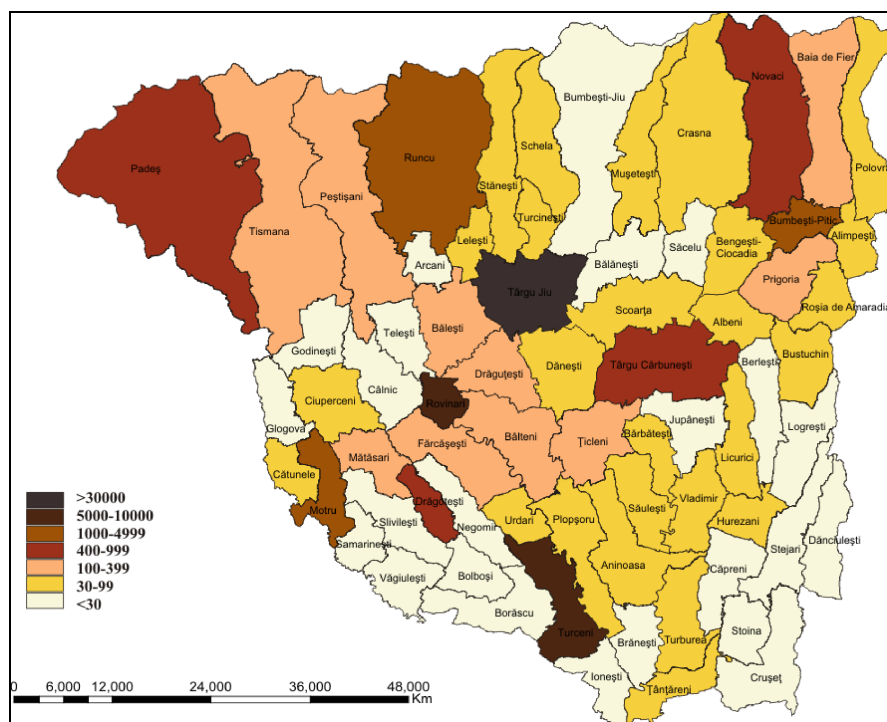


Figure 2. Distribution of the number of employees

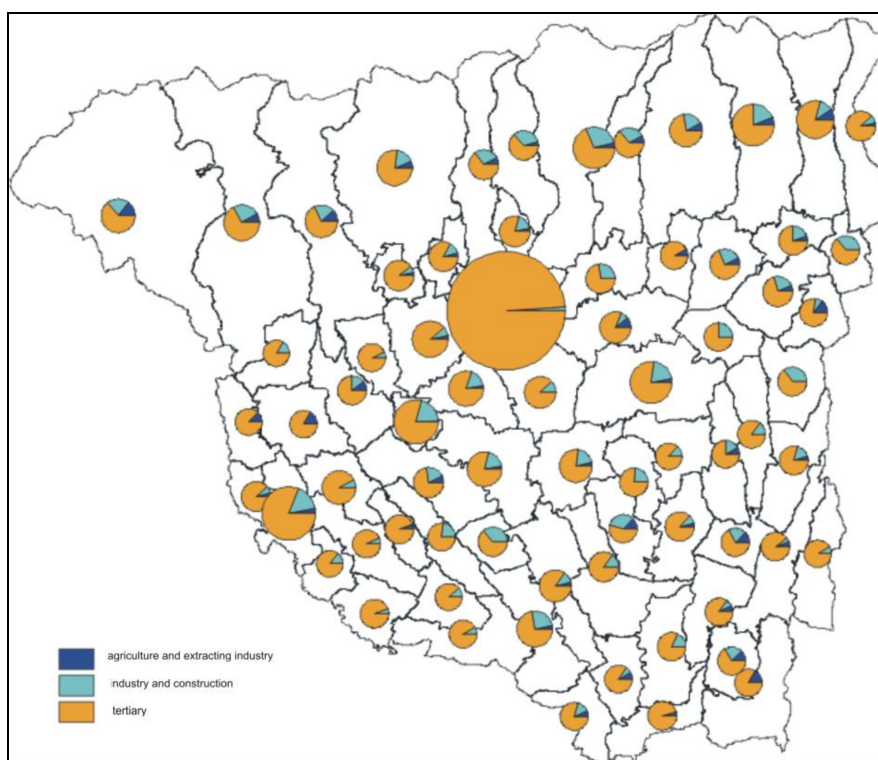


Figure 3. Structure of the firms holding Romanian capital according to their activity domain



establishment of the small and medium enterprises – The Multiannual National Programme for the Development of Entrepreneurial Culture among Women Managers, The 2005-2009 Multiannual National Programme for Sustaining the Access of Microenterprises and Small Enterprises to Consultancy and Training Services, The Programme for Development and the Modernization of the Activities for Commercializing the Marker Products and Services, etc.

The main problems the entrepreneurs are faced with related to obtaining contracts, difficulties related to their request and demand. As far as the offer is concerned the new enterprises face most of the times financial issues, especially related to the lack of resources, the limited access to credits, lack of clients or client with pending payments. In the matter of demand, 77% of the entrepreneurs consider that the major issues relate to the constraints of the competitiveness of the commodity market, 56% of them of the fact that their firm is insufficiently known on the market and 55% of the lack of economic resources of the potential clients (fig. 1).

The structure of the enterprises according to the number of their employees emphasizes a domination of the microenterprises as a result of the policies for encouraging the entrepreneurial sector lead by the government. According to figure 1 one can observe the local economies depend on the small and medium enterprises, and in some administrative territorial units they are the only ones that contribute to the dynamic of the social-economic system. The analysis of the entrepreneurial sector from Gorj County emphasizes the acute need for intervention on the part of the decision making factors for supporting this sector, which is confronted with severe blockades due to the financial crisis. The detailed analysis of the structure of the enterprises emphasizes the dependency of small and medium enterprises on the large companies that are subordinated to the state and as such receive governmental support.

In the case of this county the enterprises with less than 9 employees are predominant. Most part of the small enterprises are found in

the northern part of the county and in the urban areas. The medium sized enterprises are situated in the main cities (Motru, Rovinari, Tg. Jiu) and in their influence area, while the large enterprises are located in Tg. Jiu (where they represent more than 23% of the total number of enterprises) and in the mining cities (Motru, Rovinari).

Analysing the hierarchy of the number of employees, the county town is clearly dominating with more than 30 000 persons holding labour contracts, benefiting from the presence of a series of large companies and 55 SMEs, with the next two places being claimed by the cities where the two energy complexes are located – Turceni and Rovinari each holding between 5 000 and 10 000 employees, but holding fewer small and medium sized enterprises – 28 and respectively 23. Another category of cities with 1 000 up to 5 000 employees is made out of Motru, Bumbești Pitic and Runcu, understandable due to the mining profile of the first location and the tertiary sector in the other two, the number of SMEs is above 200 in Bumbești Pitic and above 80 in Runcu. With a number of above 400 and up to 1 000 the next category includes Târgu Cărbunești, Novaci, Dragotesti and Padeș. If in the case of the first three cases the situation is explained by the rather diverse profile of the economic activities, the fourth case the situation is due primarily to the development of a series of tourism activities. Most of the settlements register less than 100 employees, especially in the south-eastern part of the county (Ionești, Brănești, Stoina, Crușeț, Stejari), partially in the south-western part (Samarinești, Borăscu, Bolboși) and only in certain location in the north (Săcelu, Bălănești) (fig. 2, 3).

The enterprises holding Romanian capital represent more than 90% out of the total number of enterprises. The tertiary sector is very well represented within the county and it registers different shares depending on the demand of the market or the living standards. The secondary sector is present in the northern part of the county and in the urban centres. The investments in the primary sector were significantly diminished and are present in the northern and south-eastern part of the county (where they are

related to the agricultural activities) and in areas with tradition in mining activities.

When analysing the profit made by the small and medium sized enterprises distribution at a local level significant territorial disparities stand out, the highest values register in cities and administrative units with a large population number, an important competitive factor.

The highest profits made by SMEs registers in Tg. Jiu and Motru, which offer the optimal conditions for the emergence and development of the small and medium sized enterprises due to the functions they hold at a county and regional level.

It is remarkable the significant growth of the SMEs profits in the rural area where the territorial development depends on this category of enterprises. An interesting feature is the fact that the share of SMEs is larger as the administrative unit is more isolated from the main structuring axes thus the profit depends on the economic development of the settlements. This spatial projection shows the importance of the SMEs for the economic rehabilitation of the territorial systems that were marked by profound socio-economic disparities. The administrative units: Samarinești, Văgiulești, Bolboși, Negomir, Slivilești, Ionești, Stoina, Stejari, Dănciulești, Logrești, Berlești, Săcelu, Bumbești-Pitic, Călnic enter in such a category.

The analysis of the distribution of the profit registered by the SMEs in Gorj County underlines the importance of this category, which is complimentary with the other types of enterprises, in order to outline a growth pole that can contribute to the consolidation of an optimal development network, interconnected with the socio-economic supra-systems.

### **Changes occurred at the level of the territorial systems as results of the entrepreneurial initiative development**

Gorj County sustained in July the 1<sup>st</sup> 2008 a number of 80 territorial administrative units out of which 9 cities and 61 communes and 411

villages. From the cities Târgu Jiu the county residence and Motru are both municipal towns.

At a first glance the analysis of the population reveals its unequal territorial distribution, the values varying from 1 285 inhabitants (Arcani) and more than 96 000 inhabitants (Tg. Jiu). Most of the administrative territorial units have between 3 000 and 10 000 inhabitants. A high dispersion of the inhabitants is also noticeable as each commune has between 7 and 10 villages.

Another important element that deserves to be pointed concerns the urbanization level. The urban population represents 47% of the total population of the county. The real level of urbanization is imbalanced with values from 24% (Tismana) to 100% (Țicleni). Even in the case of the county residence the real urbanization level is of 95%.

Against the background of the political and economic changes happening after 1990, Gorj County suffered a series of changes to its economic basis that reverberated on the territorial and functional structure of its settlements and implicitly in the dynamic, structure and quality of life of their population, fact which was also emphasized by the previously presented synthetic situation.

### **Territorial disparities**

The overall evolution of the present social and economic life, but also the industrialization policy promoted after 1990 have lead to the uneven of the territorial development of the area. The smoothening of these differences should constitute the main preoccupation of the central as well as the county and local administration on the general background of the national policy for regional development whose objectives are:

- Diminishing the existing regional disparities, with special attention drawn on stimulating the balanced development and the revitalizing the less favoured areas (with late development); preventing the birth a new disparities;

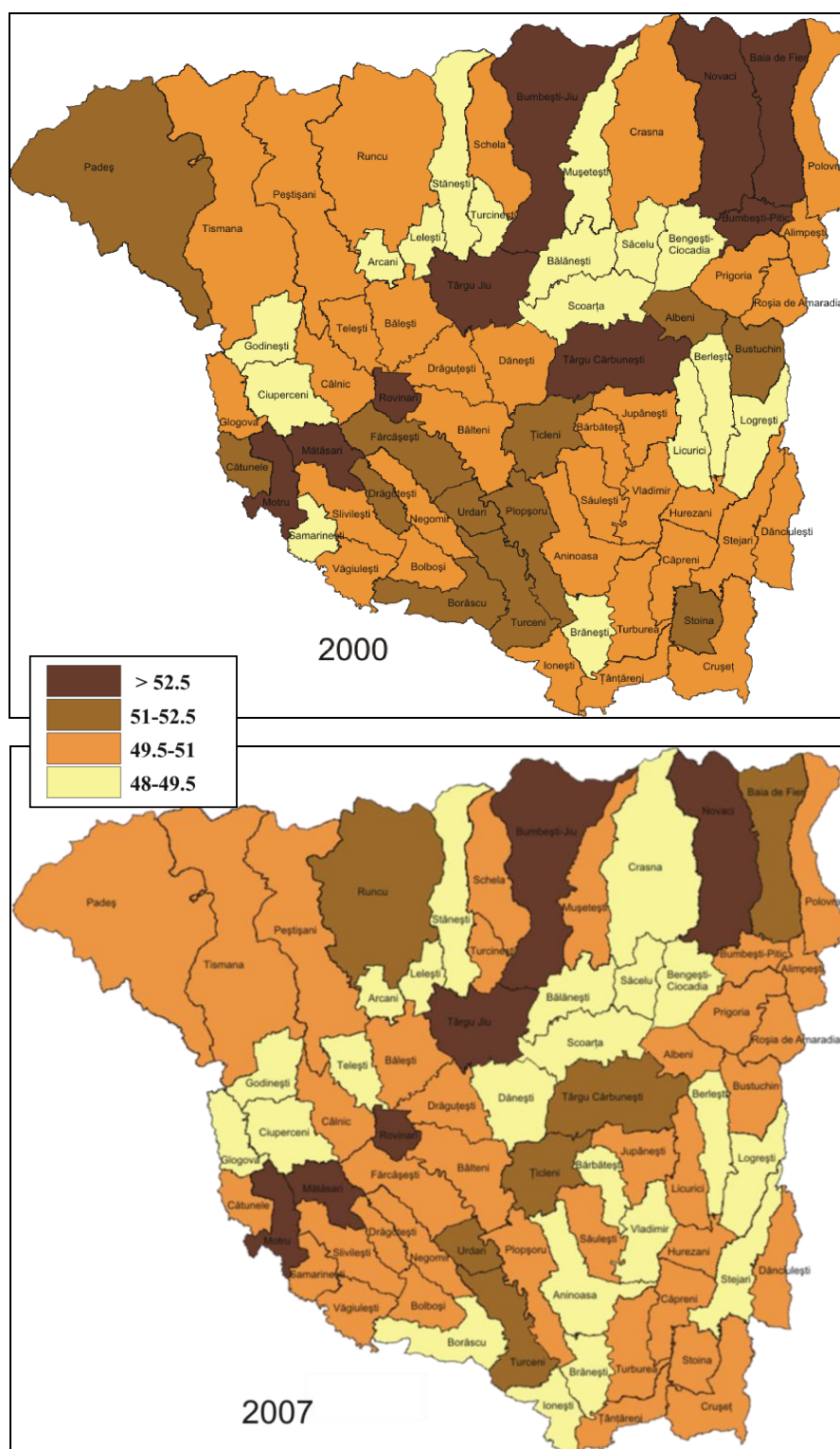


Figure 4. The evolution of the development index between 2000 and 2007

- Fulfilling the criteria for the accession of the European Union structure and accessing the financial instruments for assistance meant for the member states (structural and cohesion funds);
- Correlating with the governmental regional development policies; stimulating the interregional, internal and international cooperation, that contributes to the economic development and is done according to the legal provisions and the international agreements Romania signed.

17 administrative units are included in the areas that are massively disadvantaged from a demographical point of view and are mostly (11 of them) situated in the northern part of the county. Out of these, 5 have demographic issues concerning the decrease of the population with 20% and out of the total population 30% are aged 60 or above (Arcani, Căpreni, Lelești, Runcu and Săcelu). The rest of 12 territorial-administrative units (Novaci, Bălănești, Bărbătești, Bengești Ciocadia, Berlești, Brănești, Crușeț, Fărcăsești, Godinești, Pestișani, Stănești și Turcinești) are characterized by decreases in their population number of 10 to 15% between 1991 and 2005 with 25-30% of the total population aged 60 or more.

The synthesis of the *economic state* of Gorj County, realized based on the above mentioned indicators reveals the existence of a number of 23 administrative territorial units that can be catalogue as massively disadvantaged affected by high unemployment rates and a high dependency rate. Out of the 23 units 8 are part of the economic disadvantaged areas established in 1999. The synthesis analysis of the economic state also confirms the presence of other 3 areas (Albeni, Schela and Motru-Rovinari) to which we add a fourth area situated in the southern part of the county made out of the following communes Ionești, Brănești, Tântăreni, Stoina, Căpreni and Vladimir.

Analysing from the perspective of the infrastructure state the areas that are profoundly economically disadvantaged are: the Motru-Rovinari area, the south-eastern part of the county, Albeni area (situated around the city of Tg. Cărbnești), the north-western part of the county. Elements that

helped to outline these areas were the insufficient development of the gas distribution and sewerage network as well as the lack of a modernized local road infrastructure.

The corroborated analysis of the above mentioned indicators offered the profoundly economic disadvantaged areas based on their *living standard*. The most extensive area is located in the south-eastern part of the county. Other areas are the Motru-Rovinari one and the north-eastern part of the county (mountainous one) (fig. 4).

The development index was calculated based on the aggregation of several categories of indicators: demographic (the population aging indicator, the demographic evolution indicator), economic (number of firms, number of employees), infrastructure (length of the water distribution network, number of phone subscriptions), living standard (infant mortality rate, number homes equipped with bathrooms). Analysing the thus obtained map a certain constant can be outlined (for high values of the indicator) in the case of Motru, Mătășari, Rovinari, Bumbesti-Jiu, Novaci, Turceni, Urdari, but also a slight decrease in Țicleni and Baia de Fier.

Low and decreasing values register in the south-western and south-eastern parts (due to depopulation and demographic aging, the weak entrepreneurial spirit, the limited access to telecommunication and a high percentage of population working in agriculture).

## Conclusions

Although it has registered a positive evolution during the last few years, the SME sector faces at the present moment a series of problems due to the current economic crisis. As a result of this it is expected that both on the short and long term the number of SMEs as well as the number of employees to register significant decreases.

The problems emphasized by the questionnaires that were applied lead to the idea that the SMEs should be helped in order to overcome the current period (from the managers' but also from the local authorities'

point of view) considering that they significantly contribute to the region's economy and especially contribute to increasing the employment rate. This kind of help could come in the form of the programme for development of the entrepreneurial abilities among young people and facilitating their access to finances (START 2007).

From the analysis of the data we conclude that the rate of closure of the enterprises is higher in the areas where the managerial education level is lower. Thus results the necessity of educating the existing managers both in order to reduce the bankruptcy situations and also in order to increase the competitiveness of the existing ones.

The accumulated experience shows the fact that in the entrepreneurial initiatives insertion process the spatial feed-back is very important. It can determine the success or on the contrary the failure of such an initiative. The interaction between the initiative and the area in which it is inserted is shaped through the feed-back given by its components.

Based on the intensity of the changes produced we can distinguish two types of entrepreneurial initiative insertions: a series of slow, barely noticeable, and a series of abrupt, even violent ones. A slow insertion has the quality of being integrated harmoniously in a certain dynamic and transforms the previous structure. The violent insertion shatters the local structures, creates new structures by destroying the old ones and risks to produce irreparable changes to the territorial system.

The insertion of an entrepreneurial initiative in an area should take into consideration: the valuing of the local resources (both human and natural), of certain traditions and social-economic and multicultural niches and of the territorial context. All of these come from the external environment and justify the implementation of an entrepreneurial initiative in a certain place.

The entrepreneurial initiative appears out of the necessity to identify solutions to the problems a community faces or to accomplish certain targets communities from different spatial levels set out for themselves.

It is obvious that at the level of Gorj County the presence of economic activities in the rural areas is scarce due to: inefficient agriculture, lack of modern utilities and technologies, disappearance of certain activities, increase of the animal stock low level of entrepreneurial development especially in the rural areas, the less that the national average number of SMEs with the majority of them situated in the urban areas and being mostly part of the tertiary sector, increasing unemployment rate especially among women and the low rate of attracting foreign investments.

The development of the SME sector and the new industrial branches, ecological and the introduction of the new innovative technologies is done slowly and do not constitute a viable alternative to the massive and profound restructuring of the economy of the county in the nearby future.

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