

**UNIVERSITATEA BABEȘ-BOLYAI  
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**THE SOCIOLOGICAL ASPECTS OF ENTREPRENEURSHIP  
IN TRANSYLVANIA**

**SUMMARY OF THE DOCTORAL DISSERTATION**

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## **SYNTHESIS**

The thesis of this paper is that during the last two decades after the socialism major changes occurred in the social conditions of entrepreneurship in Romania, which cannot be described anymore with the conceptual instruments used by the sociology of the post-socialist transition. For the apprehension of these changes we need a multidisciplinary approach which should successfully integrate the theories of neoclassic economics, Schumpeter's theory of innovation, the personality trait approaches and the sociological theories of social embeddedness. In this paper we examine the larger context of entrepreneurial activity, compare the most important moments of the post-socialist transition and the development of entrepreneurship. The second part of the empirical analysis tackles the social dimensions of entrepreneurial activity and entrepreneurial potential in the villages and towns of Transylvania.

**KEYWORDS:** entrepreneurial activity, entrepreneurial potential, regional differences, post-socialist transition, personality trait approach, social embeddedness, Transylvania.

## SUMMARY OF THE PHD THESIS

In the two decades which have passed since the change of regime, entrepreneurship as a social phenomenon has increasingly spread in Romania, reaching unprecedented dimensions at the beginning of the new millennium. In ten years time the number of registered active enterprises grew from 320.000 in 2000 to 550.000, thus, reaching the highest growth rate in Europe. This growth however did not result in a significant increase of scientific interest in this phenomenon. On the contrary, after a productive wave of sociological literature on transition, the interest in entrepreneurship research has decreased considerably. All this happening in spite of the fact that after the European Union integration Romania has become part of several international comparative studies (General Entrepreneurship Monitor, Flash Eurobarometer etc.). Moreover, due to the imposed standards on data registration, an increasingly exact, detailed – and more importantly – reliable data is available regarding the number and functioning of enterprises. In the same time, several smaller range, but quite expensive analyses have been carried out within the EU financed development programmes (e.g. in the framework of the Sectorial Operational Program - Human Resources Development – POS DRU) or on the request of local governments. Although these studies were summarized in study reports their comprehensive synthesis has not yet been carried out. As such a thematic systematization and more thorough analysis of these information is still to come.

One of the possible reasons which can explain this break in entrepreneurship studies is that the Central and Eastern European transition literature – which was very popular in the nineties and received a lot of international attention – is no longer suitable for an adequate conceptualization of the changes registered in the new millennium. The post-socialist path dependency model – which in the interpretation of transition economy and hybrid property relationships of the past decade has a huge explanatory force - has become less and less appropriate for describing the new economic structure that has emerged after the institutional reorganization and increasing globalization of the Romanian market.

The country entered a new era, the era of post-integration. New players have appeared; the economic structure and institutional culture have become more differentiated and are in a constant transformation. Apparently, for an adequate interpretation of these changes we need a more complex and multidisciplinary approach.

In the sociological literature of entrepreneurship the need for conceptual modernization and disciplinary integration has already been formulated. We consider Thornton's integration efforts (1999), and the work of Róna-Tas and Lengyel (1997) in Central and Eastern Europe as examples that are to be followed. According to these models, the scientific research of entrepreneurship can be linked to three main disciplines: economics, social psychology and sociology. Each of these disciplines raises its own questions regarding entrepreneurship, uses different theoretical approaches and conceptual backgrounds and focuses on different levels of analysis (Thornton 1999:34).

The economic approach starts off from the assumption based on methodological individualism, according to which – regardless of their social context – individuals are primarily interested in economic gain, as entrepreneurs in profit maximization. As entrepreneurs regard their environment as possibility, enterprises emerge wherever market possibilities exist. The only disagreement between economists lies behind the problem whether entrepreneurs passively exploit these possibilities (neoclassic approach) or they are active, innovative and creative actors of these possibilities (Schumpeter's innovative theory).

The personality trait approach, less used in Central and Eastern Europe, but very popular in the international literature, is based on the tradition initiated by Schumpeter's theory. According to this theory one's entrepreneurial inclination is determined by one's individual traits. Thus, individuals with stronger risk taking attitude, personal performance, inner control, target orientation etc. are the ones to become entrepreneurs.

Finally, an economic sociology approach, popular in our region – tries to explain the appearance, development and subsistence of enterprises through the structural-institutional environment in which they are embedded, the social resources and the tradition of entrepreneurial culture.

We line up with the above mentioned authors and accept that these approaches can give satisfactory explanations about where and why in the past two decades have enterprises been established, dissolved and are functioning in the Central and Eastern European societies only by their joint forces. The mentioned diversity of data sources and the increasingly sophisticated methodological tools allow us to do joint analyses with adequate empirical background of the most important theories of the three paradigms, analyses that go beyond the one-dimensional studies. Thus, we have great chances to identify linking points which can lead to new results in the research of entrepreneurship, which otherwise would be impossible to achieve due to disciplinary fragmentation.

All these being said the present paper attempts to give a holistic description of entrepreneurial activities and their potentials. Beside the empirical verification of our hypotheses, the stated objective of this paper is to put the data collected and synthesized during the present dissertation at the scientific public's disposal.

Due to our good knowledge on field-reality, the analysis will refer specifically to Transylvania (to villages and towns of this region). However, for a better contextualisation in the analysis of the macro-economic conditions of entrepreneurial activities we will use national databases and reference studies.

According to those presented above, the paper has the following structure: after a short introduction, the summary of the applied methodology and the clarification of conceptual taxonomy we will summarise the three disciplinary approaches. Based on this information the main frameworks of interpretation of entrepreneurial activities will be presented. Firstly, we will expose the main thematic directions of economic theories with regard to entrepreneurs (Chapter 1).

Since the structure of post-socialist economies of transition is quite diffuse, in contrast with the static entrepreneurial theory of neoclassic economics, which presupposes a perfect market, we argue that market segmentation, imperfect information possibilities and – consequently – the presence of risk factors and uncertainty imply an active entrepreneur, and that the imperfect market conditions have a strong influence on the rationale of his/her decisions. Beside the acknowledgement of these market conditions, the inclusion of human factor in the entrepreneurship theory of economics leads us to the trait approach. In the framework of this approach, we will present the one- and multidimensional entrepreneurial character models, and detail those social-psychological analyses which try to grasp the formation of personality in the interactive relationship between the individual and its social environment (Chapter 2). Through the inclusion of the social environment a third group of entrepreneurship theories is developed, namely the theories of sociological approach. At this point, we distinguish the theories of structural embeddedness of enterprises from those which connect the inclination for entrepreneurship with the existence of certain cultural-normative conditions. As in our analysis the ethnic criteria will also be taken into consideration, we also give a short presentation of the vast literature regarding ethnic entrepreneurship in the USA.

In the second part of this paper we will present the results of our empirical analysis. Starting from the international and national data, we will gradually approach the field of our analysis: the Transylvanian villages and towns. Firstly, we examine the larger context of

entrepreneurial activity; compare the most important moments of the post-socialist transition and the trends in entrepreneurial activities. We will examine one by one the macro-economic pressures which are tackled in the economic literature, and which have contributed to the widening of the small and medium enterprises sector. Furthermore, we will substantially examine the role which the small and medium enterprises, individual enterprises and the self-employed play in the development of the economy and in the maintenance of its stability. After that, we will present the regional differences with regard to entrepreneurial density, especially emphasising the comparative presentation of the development regions and entrepreneurial activities in the Transylvanian counties.

The multi-perspective analysis of the entrepreneurial activities of the Transylvanian villages represents one of the main chapters of this paper (Chapter 5). Using local level statistics we will create the “enterprise map” of Transylvanian villages. We attempt to explain the identified regional differences with the help of economic, geographic, historical and sociological factors. Furthermore, we identify and characterise the cluster of top villages regarding entrepreneurial density. The low predictive power of our regression models and the significant disparity of entrepreneurial density lead us to the conclusion that in Transylvania locality plays an important role in creating the social conditions for entrepreneurial development. Consequently, for future research the elaboration of case studies is recommended on either village or micro-regional level, putting the emphasis on the analysis of the local social resources (models of economic cooperation, configuration of social relations, local entrepreneurial culture etc.) which can offer more information than the economic models of competitive advantages do.

Finally, in the third empirical chapter, we will present the results of our two surveys and of our focus-group discussions carried out in several towns of Transylvania. In our population survey we look at the most important social factors which determine entrepreneurial disposition, detail the motivations that underlie entrepreneurial intentions, and the perceived barriers in the establishment of enterprises (Chapter 7). From sociological perspective, we consider the analysis of the micro-social and cultural-normative environment of the entrepreneurial inclination and – referring to the presented socio-psychological theories – the trait conditions of becoming an entrepreneur, to be of particular importance.

With the help of our survey carried out among entrepreneurs we analyse the sociological profile of enterprise owners and managers, the main characteristics of active

enterprises, the conditions of entrepreneurial success and the expectations regarding entrepreneurial development (Chapter 6).

## **CHAPTER 1. Economic Theory on Entrepreneurship**

Despite the premises based on methodological individualism, the dominant economic schools (especially orthodox and neoclassic economics) unanimously emphasize the role of market conditions in the explanation of functioning of enterprises. It is said that economic actors behave in a well-determined and rational way; their objectives are limited exclusively to the maximisation of their profit, reacting systematically and in a foreseeable way to the signals of the market without having any innovative possibilities or ambitions. Thus, this model does not include the theory of the economic actor, its motivations, values or interests. This theory implies an economy isolated from other social institutions and identified with the market where all the actors are perfectly informed about their possibilities on the market, risk and uncertainty are unknown and informational and transactional costs do not exist.

As we have seen, the neoclassical orthodox theory has been criticised on many levels, however, these critical remarks have inspired new perspectives in the conceptualisation of entrepreneurship in modern capitalism. The criticism of the static perception of economy has led to new ideas regarding the role of the entrepreneurs in a constantly changing economy and has generated constructive debates about the functional delimitations of the different statutes and responsibilities within an enterprise.

The recognition of market segmentation, imperfect information and of transactional costs has led to interesting analytical approaches regarding *the role of risk and uncertainty in entrepreneurial decision-making*. In the study of risk perception and tolerance of uncertainty among small town entrepreneurs we will use the most important conclusions of these analyses

Theoreticians of the Austrian school draw attention on the mediator role and the *central position entrepreneurs play in sustaining market stability* (Hayek, Kirzner).

In our study these criteria turn up at macro-level analysis of enterprise statistics, where we discuss the economic role of small and medium sized enterprises (Chapter 4).

Finally, the inclusion of human factor in the economic analysis is becomes complete with Schumpeter, who when analysing the entrepreneur's role emphasises *the innovative skills which manifest themselves in the combination of resources*. This already is the point

of trait analysis of entrepreneur's character, which will be presented in more detail in Chapter 2.

## **CHAPTER 2. Personality Trait Approach of Entrepreneurship**

The psychological theories of entrepreneurial abilities try to discover the personality traits of entrepreneurs that distinguish them from the rest of society. According to this approach, the economic actions of individuals are primarily determined by their personality, some people are simply better at obtaining entrepreneurial success than others. According to the classical personality traits approach, these traits are of "internal" origin; they do not depend on external circumstances, and the personal observations of the social environment do not influence their existence. Even though there is no consensus among researchers in this respect, out of the important personality traits which can be connected to entrepreneurial success the contemporary analyses mention the following: motivation for performance, self-confidence, enthusiasm, inner control, aspiration to independence, self-efficiency, creativity/innovative character, target orientation, inclination towards risk-taking and tolerance of uncertainties. We also applied these dimensions in our survey among small town entrepreneurs (see Chapter 7). Although the use of these models is quite widespread even today, the most frequent criticism of this theory is the lack of consensus regarding the main personality traits that are universal among entrepreneurs. Moreover, the traits approach itself was the subject of significant criticism, in its place being proposed psychosocial theories which try to grasp the formation of personality in the context of the dialectical relationship between the person and his/her social environment.

In this sense, Martinelli's criticism of the traits approaches seems very suggestive. He considers that "The traits approaches are controversial because they either aim to determine economic activity as a function of personality, thus, minimising the role of external structural influences, or establish a too simple relationship between micro (personality) and macro (economic and sociological) variables." (Martinelli, 1995:481) However, in our opinion, it is more likely that we face a paradigmatic difference: just as the dominant school in sociology regards the structural conditioning of economic activities to be evident and the individual's activities are perceived only as an adaptation to these conditions, the psychological approach in its turn tries to build up an entrepreneurship model centred around the individual. In the end, this debate is just an unproductive rivalry between the different disciplines.



Our research proves that regarding the listed personality traits there are significant and interpretable differences between potential entrepreneurs and those who do not wish to set up a business, and this confers scientific legitimacy to the use of this approach.

### **CHAPTER 3. Socio-Cultural Approaches of Entrepreneurship**

Regarding sociological theories of entrepreneurship we consider it wise to start off with Martinelli's taxonomic metaphor (1994): for an enterprise to appear it is necessary that "the seed finds the suitable soil. Some authors focus on the seed, which either means the specific psychological characteristics of the entrepreneurial conduct, or its social characteristics. Others focus on the soil, which they study either through certain structural factors (market types, production factors, class and ethnic relations, state planning etc.) or through cultural factors (business ethics, social approval of economic activity etc.). A third group of researches keep a close eye on the specific actor - economic situation relationship"(Martinelli 1994:480).

According to the already presented theories, it is not difficult to notice that the first approach originates from the psychological and socio- psychological perspective, while the latter from an economic perspective. Sociologists who try to answer the following two questions belong to this second group. The first question is: in which social context entrepreneurs get to appear and what are those structural and cultural conditions that favour their appearance? During our analysis we apply the analytical differentiation between structural and cultural criteria as proposed by Martinelli in the operationalisation of the social environment of enterprises (see Chapter 5).

The structural explanations connect a more intensive entrepreneurial activity to the particular (primarily network) conditions of social structure.

In this context, personal networks play a crucial role, which – as social resource – is used for economic purposes, especially those of setting off and maintaining enterprises. According to this theory, individuals who possess a socially heterogeneous network of relationships and who, within this network either have a bridge or a broker role, will become successful entrepreneurs.

The true virtue of structural theories is unfolded in the mezzo-level analyses. The social capital of personal networks is not just a personal asset, but a collective resource, a common good in the life of social groups and communities defined along well-established criteria (ethnicity, religion, etc.). Along its main dimensions of "bounded solidarity" and

“enforceable trust” (Portes 2000) social capital fulfils a regulatory role. It helps maintaining the order within a group, and consequently helps the unobstructed and cost effective economic transactions. Thus, the members of the group can obtain competitive market advantages compared to the outside world. This could explain, for example, why certain ethnic minorities or immigrant communities are very successful entrepreneurs. During our analysis we will examine the validity of this theory with regard to the Hungarian ethnic minority from Transylvania.

Another dimension of Martinelli’s distinction is the „cultural” approach of entrepreneurial analysis. According to this theory, rooted in Weber’s principles, enterprises appear in greater number where behavioural models stimulating individualization have strong traditions and where entrepreneurial values and culture are being more popular. This tendency somewhat stands out against the traits approach, according to which certain personality traits lead to entrepreneurship. Tibor Kuczi’s remark plastically illustrates the essence of this approach: “if personal skills and aptitudes were the decisive factors, then with the help of a well-constructed personality test we would be able to predict who would become an entrepreneur. However, this is not possible to foretell, because the need for autonomy and risk-taking attitude can manifest themselves in the most diverse activities and professions. Culture will decide whether someone with certain aptitudes will become a shaman inventing a new tribal ceremony, or will have a successful business career“ (Kuczi 1998:1).

As such, the mode and direction of development of individual traits is a culturally controlled process: in those communities and regions where the values of individualization and entrepreneurship are more widespread the chances are greater for the prevalence of entrepreneurial behaviour.

According to the approach known under the name of cultural theory of entrepreneurship, the prevalence of entrepreneurial behaviour can be understood only in the context of cultural models of the social environment. In this sense, the formation and development of market economies, in general, and that of enterprises, in particular, is preceded by a slow social and cultural transformation which creates a system of norms and dispositions. These not only represent a single prerequisite for the appearance of entrepreneurial behaviour which is suitable for market economy, but can also be interpreted as a dynamic framework with “specific scale of values, attitudes and confidential relationships which make it possible to create new and competitive institutional solutions, technical procedures, products etc.” (Kuczi 2000: 154).

The relationship between values, norms, dispositions and inclinations towards entrepreneurship is studied on two levels. The analyses based on Weber's theories focus on the quantitative correlations between general values of society and the entrepreneurial density.

In order to avoid ecological fallacy, methodologically we consider the direction – which we have followed in our empirical analysis – that focuses on the individual value differences between entrepreneurs' and other social groups more acceptable. On the basis of these differences, this approach identifies those value configurations that can increase the probability of entrepreneurial emergence.

Regarding cultural incentives of entrepreneurial behaviour – along the above approaches – theories which analyse the approval of social environment in the emergence and successful operations of enterprises are also important. Approaches that insist on the social "legitimacy" of enterprises emphasize the importance of "climate" and "favourable atmosphere" for entrepreneurial emergence (Gerschenkron 1984), the engagement in specific roles, values and norms are indispensable in the promotion of entrepreneurial culture. We attempted to analyse this topic among town residents. We tried to capture these attitudes with the help of a scale especially designed for testing attitudes towards entrepreneurs.

#### **CHAPTER 4. Entrepreneurship in Romania after the Change of Regime**

The first empirical chapter of our paper has a double aim. On the one hand, we draw a quantitative picture on the changes in the number of small and medium sized enterprises and self-employed, on the other hand, – based on the already presented macroeconomic approaches – we formulate plausible hypotheses regarding their role in the development and sustaining of the economy.

At the moment in Romania there are more than half-million active enterprises with legal personality (trade companies). This number however, when relate to the number of inhabitants of the country, is well below the European Union average. This fact is, in our interpretation, the sign of the low fragmentation of the entrepreneurial sector. Analysing the data of more developed European economies, we have come to the conclusion that concentration of work force and the fragmentation of the entrepreneurial sector do not influence performance on macroeconomic level. Furthermore, with regard to small and medium sized enterprises, we concluded that these play an important role primarily in the

maintenance of macroeconomic stability and balance, and a lesser role in the development of the economy, thus, significantly contributing to the reduction of negative impacts of the crisis. Due to their tight household link these small and medium sized enterprises are more flexible when it comes to their money and work force management practices. As such in an adverse situation they can function as institutions “with lax budgetary constraints” (Kornai 1992). Regard the changes in the number of enterprises in the past two decades we have reached the conclusion that the survival rate in the small and medium sized enterprise (SMEs) sector has considerably improved compared to the nineties. This comes as a sign that the “evolutionary” selection- following privatization - has closed down (Grabher-Stark 1997) and that the adaptability of smaller companies has significantly progressed.

Along with the slight economic revival of the 2000s, the increase of the SMEs sector also intensified, exceeding the EU average. Another positive outcome is that till the crisis the two year survival probability of the newly established enterprises was again higher than the EU average.

Out of the four scenarios explaining the development of the entrepreneurial sector<sup>1</sup> with regards to the nineties, the explanation of fragmentation that has developed as a result of the structural changes caused by privatization seems to be the most plausible.

The evident effect of the recession pressure, generally characteristic to all post-socialist countries, was lessened by the precautionary measures of the left-wing government which kept employees in the subsidized, loss producing state owned enterprises for a long period. Furthermore, as part of the precautions privatization program, the large, state-owned enterprises were put out on sale ready cut into pieces along certain functionality criteria. However, in an analysis of a conflictual principle, this created hybrid property forms and organisational structures which became ideal surfaces for the appearance of the so-called parasite companies, through which the national patrimony was secretly transferred to private property, thus contributing to the economic strengthening of the preceding/previous socialist technocracy. From our perspective, important is that this process further intensified the fragmentation of the entrepreneurial sector.

When explaining the development of the 2000s, more differentiated effects must be taken into consideration. High unemployment rate at the beginning of the new millennium, and the improved legal framework for starting off enterprises show an intensification of the recession pressure. Furthermore, the fragmentation pressure changed in its character,

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<sup>1</sup> The diversification of consumer needs, the technological change, the fragmentation effect and the recession effect (see Kuczi 2000).

reaches an international level taking up a European alike form. The work force considered cheap on the international market attracts foreign investors to Romania, and small and medium sized enterprises which operate in the outsource system become more and more widespread. Together with the increase of purchasing power and the appearance of accessible loans, the economy faces, for the first time, the large scale of differentiated consumer needs, to which small and medium sized enterprises were pressured to respond with a more flexible and more fragmented work management system.

Unfortunately no coherent data is available for the period following the economic crisis. However, the general crisis conjuncture and the austerity measures of the government have seriously affected the SMEs sector. Due to the introduction of the forfeit tax and the tightening of the more flexible forms of income taxation, the number of bankrupt enterprises increased considerably in 2010.

In statistical registers entrepreneurial forms without legal personality (individual enterprises and family businesses) are treated separately, as such much less information is published about them although from economic sociology approach the separation of micro-enterprises from the individual forms of entrepreneurship is not justified. According to our data regarding from the end of 2000s it is visible that entrepreneurs are more flexible in choosing legal form for their e if concrete advantages motivate their choice. This happened in the case of family businesses, when in a period of only six years their number decreased to one-fifth. Presumably many of them have established small enterprises for better chances in obtaining financial support as a new possibility of the EU integration. Others have obtained individual entrepreneur license, which starting from 2008 ensures a greater flexibility in the field of employment.

Finally, with regard to the role of the self-employed in stimulating the economy we came to the conclusion that the Romanian self-employed do not resemble their colleagues from the EU neither with regard to their economic viability, nor to their social possibilities. For the majority of them modern entrepreneurial attitudes are totally irrelevant existential practices and are considered illusionary future perspective. 80 percent of the self-employed work in the field of subsistent agriculture and are situated on the periphery of society as far as their financial, educational or social resources are concerned. Their condition is further aggravated by the fact that family workers that help in - do not receive unemployment benefit – come from these household as well. Teréz Laky's characterisation (1998: 2) suits well this category from several perspectives: the majority of self-employed workers have no entrepreneurial license; they carry out activities which do not require any capital or only

minimal investment (in our case this activity is subsistence agriculture); they usually work on their own or with help from their family and follow traditional models regarding their means of subsistence. Although, due to their limited connections with the market, the economic crisis did not affect them very severely, still their role in economic development is minimal because they do not produce financial added value.

Evidently, the above presented characteristics do not refer to those freelance professionals and „genuine” craftsmen (Ana 2010) who are actively present on the market and due to work regulations – after a certain fragmentation pressure – moved from the employee category to that of registered self-employed.

After presenting the national data, the second part of this chapter focuses on our target-region, Transylvania. First we present the number, density and general economic situation of the different entrepreneurial forms on the level of the three main development regions (Western, North-Western and Central Regions) then we do the same for the 16 counties that are part of this region. Our aim was to make a precise quantitative description on regional characteristics of the SMEs sector before carrying out an in-depth analysis of entrepreneurship in rural areas (Chapter 5) and towns (Chapters 6 and 7) of the region.

On the basis of the comparative analysis of the Transylvanian regions we can highlight some specific characteristics.

In the period between 2002 and 2009 *entrepreneurial density* in the Transylvanian regions was 2-3 units higher per 1000 inhabitants than the national average. Thus, entrepreneurial activity was much higher – except of Bucharest – than in the other regions of Romania. For example, in 2008 in the North-Western region the number of trade companies per 1000 inhabitants was 28.6, in the Western region 27.2 while in the Central region 26.8.

With regard to the *economic sectors*, in the North-Western and Central regions entrepreneurial density is higher in the industrial, construction and market services sectors, and lower in the public service and in trade. In the Central region, a more intensive entrepreneurial activity characterises all the sectors than the national average, except of the trade sector.

There are no significant regional differences in the size of enterprises. Companies with less than 50 employees are more frequent in trade, market and public services. Medium and large enterprises however are more likely to operate in the industrial sectors and show a high range of variability in the different counties.

The number of trading companies increased in an intensified manner in the 2002-2008 periods (especially at the beginning of this period in market services). This change however was much diversified in the different counties. The effects of the global financial crises were quite visible: in 2009 the number of realtor companies has drastically decreased (by 85%) on national level and in the regions of our interest as well. In other service sectors the situation is more differentiated: slight decrease in some regions, slight increase in some others. In constructions for example, the number of companies in 2009 on national level has increased by 18%, while in the Transylvanian regions this increase was only 14-15%.

Compared to other regions, in 2002-2003 *the turnover* per local units was significantly higher in the West, Central and North-Western regions (with the exception of the capital). These regional differences have however decreased, and by 2009, the rest of the country fell in line with the Transylvanian regions.

In the period 2002 – 2008, the *net investments* in the three regions show a more dynamic growth compared to the other regions of the country, especially in the case of SMEs. The financial crisis, however, hit exactly this segment, resulting in a spectacular fall, especially in the North-Western and Western regions.

The number of *authorised* (independent) *natural persons* per 1000 inhabitants increased significantly in the 2000s. This phenomenon is specific to the Transylvanian regions: their number increased to above 18 units per 1000 inhabitants in the counties of Cluj, Arad and Bihor - much above the national average. The legal statute of family businesses is, however, less favoured: their total number has considerably decreased in the entire country.

## **CHAPTER 5. The Social Determinants of Entrepreneurial Activity in the Transylvanian Villages**

In this chapter we follow the territorial differences of entrepreneurial activity in the rural areas of Transylvania. The analysis starts from the popular socioeconomic premise, according to which the social determination of entrepreneurial activity is stronger in a rural environment, and the above presented traditional economic interpretations do not offer satisfactory explanations regarding the different entrepreneurial activities on the level of villages. The partial failure of these explanations results also from their instrumental approach; namely that they consider the entrepreneurial activity as a group of institutionalized actions focused on profit and do not take into consideration its deeper

social roots. Thus, our premise is an apparently evident assumption, according to which the development and durable functioning of enterprises in the Transylvanian rural environment is determined rather by the local particularities of the social resources and entrepreneurial culture that sometimes ignore economic reasoning. This hypothesis was verified, on the one hand, through the statistical comparison of the number of enterprises per 1000 inhabitants with the quantitative indicators of social resources (subchapter 1.4). After this – following a historical-economic perspective – we formulated other hypotheses on the relation between the models of economic organization on locality level before modernisation and the current entrepreneurial activity (subchapter 1.5). Finally, we analysed and compared the particularities of entrepreneurial culture detected in the questionnaires with the entrepreneurial activity of the population from the respective region..

On the basis of our findings we formulated the following relevant conclusions:

The temporal tendencies in the registration of economic units follow the main legal and macro-economic changes following the regime change: the majority of rural enterprises were established either in the first phase of privatisation or after the period of more accentuated development from the 2000s. However, the majority of companies and cooperatives established in the first phase do not exist today. This is due to the fact that, on the one hand, privatisation, per se, wasn't a successful process: after privatisation, the population did not know how to manage uncompetitive enterprises in the absence of consistent investments, and this is why, shortly afterwards, they went bankrupt. This is probably also related to a great extent to the pressure created by recession: due to the high rate of unemployment, a part of the population was constrained to adopt the solution of entrepreneurship, despite the lack of capital and social resources that would have been necessary for managing an enterprise after the regime change. Among others, this is also one of the motives why the forms of independent entrepreneurship, without legal personality (individual enterprises and family businesses) from rural areas were more widespread and have a higher probability of survival. Of course, the economic capacity of these companies is much more modest, their density does not correlate with the GDP/capita of the counties, a sign that their role in the stimulation of economy is very small, most of these companies being an instrument for subsistence. The economic performance of enterprises established in rural areas is also below average: rural enterprises have significantly fewer employees and their turnover represents only two thirds of the regional average. With regard to profit, the discrepancy compared to urban enterprises is even higher. Considering the above, the conclusion according to which the majority of rural



enterprises are not profit-oriented but only aim to ensure the existential means of individuals or families seems well founded.

From the county and locality level data it is evident that in the larger rural areas of big cities, the entrepreneurial activity is more intense. However, this tendency is valid only in the case of poles of competitiveness (Cluj, Timișoara, Brașov, Sibiu, Arad, Târgu Mureș), and not in the area of influence of smaller towns. Another cluster of villages with a more intense entrepreneurial activity – easy to define from a territorial point of view – consists of those areas which are in the immediate proximity of natural resources, for example the eastern Transylvanian localities with wide territories covered by forests. In the case of enterprise density, in several traditional industrial regions, we can probably see the traces of the failed attempts of the government to apply economic support policies. A third group of villages with an intense entrepreneurial activity is constituted from localities that have natural attractions or touristically valuable thermal waters. The fourth cluster is composed of divergent communes – scattered from one another –, and in their case the above mentioned natural, economic and geographical resources do not constitute comparative economic advantages. In these localities the entrepreneurial potential is determined by the local structural conditions or traditions, sustained by the specific organisation of the local social structure, the description of which needs a more customised historical or anthropological perspective.

Through the regressive analysis of the data from the level of localities we wanted to identify the sociological and demographic proxies of the entrepreneurial activity. In case of each macro-region (Eastern Transylvania, North-West Transylvania, Southern Transylvania and Banat) we can say that all the groups of factors (geographical location, state of infrastructure, demographical factors, and human resources, respectively the workforce potential) have a significant impact on the entrepreneurial spirit, but their intensity varies from region to region. In Eastern and Southern Transylvania and in Banat the most significant impact is represented by the quality of human resources, in North-West the lack of adequate infrastructure. Nevertheless, due to the fact that the explanatory power of these models is low and the county level correlations are not conclusive enough, in general we can state that in Transylvania the local aspect continues to play an important role in the determination of the conditions for the establishment of enterprises. Anyway, this observation is consistent with the observations formulated in the previous subchapter.

Given the fact that the above analyses offered only a partial response to the question „What is the reason behind the regional differences regarding entrepreneurial activity?“, we searched for other aspects that would be useful in finding an answer.

Besides the local case studies, a logical direction of the study would seem to be to try to explain the differences in enterprise density through social-historical and cultural-normative particularities that regulate entrepreneurial attitudes. Related to historical explanations – lacking adequate data – we only formulated plausible hypotheses that may be verified later on. According to these hypotheses, the entrepreneurial spirit is more intense in the villages where there was a significant entrepreneurial tradition before socialism, and in those where the forms of community agriculture were more widespread.

The cultural analysis itself led to useful results even beyond the verification of hypotheses, results that will help us reach our objective. According to this analysis, the population of the regions with more intense entrepreneurial activity is strongly characterized by a constellation of value systems that stimulate entrepreneurial attitude, the specificities of which are the more pronounced attempts to gain personal autonomy, and the powerful inclination towards creativity and innovation. Thus, the hypothesis that the presence of normative conditions forming entrepreneurial mentality in the region is beneficial for the stimulation of entrepreneurial activity seems to be substantiated. The other component of the cultural paradigm, *the social esteem of entrepreneurs*, does not have a perceptible impact on entrepreneurial activity at regional and county level, even though in the rural environment entrepreneurs have a negative image. In the absence of adequate empirical data, the assumption, according to which the higher trust in entrepreneurs on a regional level is reflected in a more intense entrepreneurial activity in the Transylvanian rural environment, also remains only a hypothesis.

Hard as we might try to precisely quantify the impact of these groups of factors (economic, social-demographic, historic, cultural) on the entrepreneurial spirit and to establish a convincing order of the level of impact of the different factors – this being one of the most significant results of the analysis carried out until now – the task is impossible to accomplish. It is problematic not only because of the limitations of the statistic method but also because of the multitude of data sources used. In the analysis we used both aggregated and non-aggregated statistical data, as well as the results of some sociological surveys, data that can hardly be compared without the risk of falling in the trap of ecological fallacy.

## **CHAPTER 6. Entrepreneurial activity in the Small Towns of Transylvania**

In this chapter we analysed the entrepreneurial activity in Transylvanian towns, using secondary statistical data, a survey among entrepreneurs and focus group interviews.

As in the previous chapter, the goal of the secondary analysis was to explain the differences on regional and locality level in the entrepreneurial activity of towns. The results show that the number of enterprises per 1000 inhabitants is primarily determined by the proximity of big cities with an increased entrepreneurial density. Previous researches (Leveleki 2002, Kopasz 2007) show that the existence of big cities can influence entrepreneurial activity in the villages around cities in two ways (in our case towns): through the spill over effect the number of investments increases and the propensity towards entrepreneurship is maintained in nearby towns; in other cases it has a clear effect on the development of an area through the attraction of human and capital resources much needed for the functioning of enterprises. In the regions of interest both effects can be observed. It seems that in the case of big cities that are considered poles of national growth (Cluj, Timișoara and Brașov) the first scenario prevails. These cities have a positive effect on entrepreneurial activity of the towns in the area. Considering the poles of regional development, the situation is similar in the case of Oradea, too. The pull effect can be observed in the case of Arad and Sibiu. In the case of Satu Mare and Târgu Mureș – towns with a lower level of entrepreneurial activity – we cannot observe either the spill over or the pull effect. The hypothesis according to which the degradation of industrial areas in big cities has a stimulating effect on the establishment of enterprises in the area (Keeble – Wever 1986, Aydalot 1986) does not seem to be valid in our case, the example of Baia Mare and of the towns from the Jiu River Valley show that the structural change of the economy affected all cities in a similar manner, irrespective of their size.

In the framework of our analysis we also created a map of enterprises of towns. On these maps - considering the size of villages and the proximity of big cities - we can identify other economic and geographic factors that influence entrepreneurial activity. Out of these factors, the most evident is the presence of touristic centres on the list of cities with the highest entrepreneurial activity. We only name the most important touristic centres here: Predeal in Brașov county, Băile Herculane in Caraș-Severin county, Băile Tușnad and Borsec in Harghita county, and the town of Covasna. The examples of the towns like Negrești-Oaș, Salonta, Sânnicolau Mare and Carei show that being situated in the border region can also be an important geographic factor for entrepreneurial activity.

At the other extremity – among the localities with the lowest entrepreneurial activity – we can observe the relatively compact and easily identifiable group of degraded mining and industrial towns.

Through the survey and the focus group interviews we continued the analysis of entrepreneurial activity on the level of individuals. Within the survey we have interviewed a total of 1005 entrepreneurs and managers from 102 towns. A total of 63 entrepreneurs (SME owners) took part in the discussions of the 7 focus groups organised in various locations. The results of the research were synthesized on the margins of the following major themes: the social profile of the entrepreneurs, the motivations to become entrepreneur, the history of the enterprise, its general economic characteristics and its social environment, the perception of success by entrepreneurs and the business development possibilities.

Regarding the *social profile of entrepreneurs* we have a vast reference and study material, however, our data do not show major differences compared to their results. It seems that in this occupational segment the gender differences are still rather significant: among entrepreneurs and managers middle aged married men with a high educational level are overrepresented.

With regard to *the motivations for becoming entrepreneur*, the argumentation of the neoclassic economy seems to be the most suitable for the description of the situation: from the results it can be seen that, when starting their business, the majority of entrepreneurs were motivated by the possibility of a better financial situation, and secondly by the aspiration to personal independence. These motivations are followed by arguments referring to self-realization and, after that, by the sense of social and environmental responsibility. The list is closed with the motivation of following an example and by coercive factors (especially arguments related to the difficulties in finding a job).

Under the chapter *„general characteristics of enterprises”* we found that the majority of the companies from the region are trading companies, private public limited companies (PLC) with fully national capital. Almost half of these companies activate in the field of retail trade, these are followed by the companies offering diverse services (one quarter of the population), and every tenth enterprise operates in the industrial sector.

More than three quarters of the firms are microenterprises (0-9 employees), 17.5% are small enterprises (10-49 employees), and only 3.1% are medium enterprises (5-49 employees). Regarding the type of locality, it seems that industrial, administrative and educational activities can be found especially in county seats, companies dealing with trade

and services operate especially in municipalities and those from the primary sector (agriculture) in other smaller towns.

Synthesizing the data on *the history of companies*, we found that almost one third of the investigated companies were established before 1994. Moreover, the majority of companies which presently operate as medium enterprises and more than two thirds of industrial and trading companies were established between 1990 and 1994. Even so, the period of most intense company establishment was the one between 2003 and 2008.

The results confirm the importance of completed level of *educational* in the process of enterprise establishment and development. It seems that right after 1990 individuals mostly with secondary education were launching businesses. After 2003 the percentage of entrepreneurs with university degree has significantly increased, this change being rather related to the spectacular expansion of higher education in the 2000s.

Although before becoming entrepreneurs, three quarters of the respondents were full time employees, it seems that the experiences of the self-employed can be more easily transferred to the entrepreneurial domain.

Regarding the *financial capital* necessary for starting enterprises, the majority of the interviewees declared that their own resources represented the main source of financing of the business. Making use of bank and other financial institution financing was more frequent in the case of companies from the agricultural sector. In towns people resorted to a larger extent to the support of friends and family, which confirms a more pronounced social embeddedness of the entrepreneurial activity. With regard to age-groups, it can be seen that especially young people need financial support from their family and relatives because the volume of their personal savings is smaller and they are less eligible for loans.

The lack of capital, the lack of adequate legislation, the fast changes in regulations, bureaucracy in general, knowledge regarding the starting of a business and the lack of information are stated to be the main problems related to launching a business.

Regarding the *network capital* of entrepreneurs, we observed that in 50% of the cases nobody from the entrepreneur's entourage worked within the company. Only one third of the respondents declared that their spouse or partner was involved in the activities of the company on a regular basis. Comparing these results with those obtained from the population survey, we can note that both personal and institutional networks of entrepreneurs are more extended than the networks of those who don't have any inclination towards entrepreneurship. This denotes that networking at start-up and development of a business has a special importance.

The owners and managers of companies consider that personal relationships are more important than institutional ones. The most appreciated relationships are those with experimented entrepreneurs. At their turn, relationships with relatives and close friends are considered more important compared to the personal relationships from the economic sphere.

The data confirm the previous observations (Csata 2011) according to which *the trust* of entrepreneurs in the administrative institutions is low. It seems that the crisis has considerably eroded the trust between economic actors as well, hence cooperation of common interest between entrepreneurs is negligible and its institutionalization is minimal.

In the context of economic and financial crisis, entrepreneurs evaluate the *current situation* as difficult, 40% declaring that the present situation of the company is worse than last year. The enterprises that are most affected by the worsening of the situation seem to be those activating in trade, services and constructions, while in the case of agriculture the present situation is considered to be better than the one of the previous year.

The majority of entrepreneurs have a positive attitude towards *the future*: one out of three consider that the situation of the company will be better in the future. This optimism is characteristic especially to big companies with more employees; the owners of micro-enterprises are considerably more pessimistic.

From among the most adequate measures to *develop the company*, the questioned entrepreneurs mention: the extension of the activity, the search for new market segments and the investments from EU funds. Although these priorities are recognised by the large majority of entrepreneurs, almost 20% of the companies do not have business plans and less than a third have plans for a longer period of time.

Entrepreneurs consider that the development of businesses is *hindered* mainly by external factors, the majority of which are of financial (lack of capital, high interest on loans) and fiscal nature (too high taxes and contributions). The main obstacles in the way of success come from the state through excessive bureaucracy and insufficient financing policy. The economic crisis per se, as a phenomenon, is perceived as a problem that hampers the functioning of businesses to a large extent.

As a conclusion of those presented above, it can be said that the entrepreneurs from the small towns of Transylvania are characterised by an attitude of opposition towards the state, a pronounced sensitivity to the crisis, general distrust, individualism and lack of cooperation, dependency on the current situation and the lack of perspectives for the future.

## CHAPTER 7. Entrepreneurial Potential in the Towns of Transylvania

The last chapter of the paper is a detailed analysis of the genealogy and characteristics of the entrepreneurial potentials in the towns of Transylvania. For the measurement of the entrepreneurial potential – in line with the international comparative studies – in the questionnaire applied to 3021 respondents we used a two stage system. Our first question referred job choice, our respondents having to respond if they would prefer to work as employees, entrepreneurs or self-employed (inclination to entrepreneurship). In the second phase we measured the intention of starting an enterprise by asking respondents if they had thought about starting a business or becoming self-employed or not (the intention to start a business).

With regard to *the preferred occupational status*, the data show that- if they could choose – one third of the adult population would rather work as employees, 13% as entrepreneurs and 26% as self-employed. The number of those who would not prefer any of the options is however significant (19%), which means that almost one fifth of the analysed population does not want to be active on the labour market.

The majority of those who prefer entrepreneurship are men, in large proportion university graduates with fathers who also have similar educational background. Similarly, a more pronounced inclination to entrepreneurship is manifested among unmarried people, especially young whose incomes are above average. With regard to nationality, the Hungarians are characterised by a more powerful propensity for entrepreneurship. Most respondents see in entrepreneurship the possibility of a better financial situation and a higher degree of personal independence.

Concerning the intention to become entrepreneur, approximately 15% of the adult population of Transylvanian towns responded with „Yes” to the question whether they have thought lately about starting a business. Men, young, unmarried, residents of cities, those with a higher educational level and an income above the economic average are over represented in this group. One third of the intentional entrepreneurs want to start their business in the near future and almost one third of them have already made concrete steps in this respect.

Similarly, as in the case of the concrete establishment of a business (see previous chapter), the most important reasons to start a business are the „pull” factors, especially those that refer to better material conditions and personal independence.

Comparing the results of the two surveys (entrepreneurs and general population), there is a significant correlation between entrepreneurs' and potential entrepreneurs' motivational background of starting a business while the constraints are less present in the case of entrepreneurs. Entrepreneurs agreed in a significantly lower proportion with the listed motivations than the potential entrepreneurs. However, we can easily imagine that in the eyes of company owners or managers – who have already passed through the complicated experience of starting a business – these motivations are not so important anymore.

In the last subchapters of the analysis we focus on the social conditions of starting a business, following its micro-social, cultural and personality trait dimensions.

Regarding *micro-social conditions* of entrepreneurship, it can be said that the presence of an active business within the network of family, close friends or relatives is decisive in the formation of entrepreneurial intention. Furthermore, this intention is also facilitated by institutional relations: the more relations one has with political and administrative actors or market players the higher the chances to become a potential entrepreneur.

Based on the results of the survey we concluded that the *cultural-normative* conditions of entrepreneurial potential are only partially present in the region. Its most important component is *the general lack of trust*, which makes social cooperation (including economic-entrepreneurial cooperation) difficult. Concerning the way of money handling of the respondents there is a strong contradiction between the norms of collective consciousness which encourage money saving and the reality of the actual situation. Although the majority of the respondents consider that people should make savings whenever possible, more than 70% of them do not have savings, any capital that could be mobilized when starting off a business. Moreover, the general lack of trust makes the loan system work in a more difficult way.

The results of the survey and the focus group discussions all show that in the towns of the targeted regions *the negative perceptions of entrepreneurs is dominant*, which - together with the general mistrust – decreases the chances of cooperation in the entrepreneurial sphere. The lack of cooperation is also signalled by the fact that those with entrepreneurial intentions prefer to start their business alone and are interested in a very small degree in any initiatives (entrepreneurial training and services, cluster formation) that implies the promotion of economic cooperation. The analysis of *the perception of entrepreneurial success*, however, brought more differentiated results in regard of attitudes



vis-à-vis entrepreneurs. The majority of the questioned consider that the success of businessmen is due firstly to their individual qualities; this was followed by the access to financial resources and relational capital.

The analyses of success perception show a more differentiated reality about the social judgment of entrepreneurs. The majority of the respondents believe that entrepreneurs become successful along with their network and access to financial recourses, due to their own personal characteristics. The outcomes of the focus group discussion further diversify this topic, participants sharing the opinion according to which proactive/initiative personal characteristics, vocational calling, social networks, skills, start-up capital and carefully selected team are all necessary for entrepreneurial success.

Finally, related to *the socio-psychological and trait conditions of entrepreneurial intention*, we have found that potential entrepreneurs believe in greater proportion, that character traits associated with entrepreneurial habits are relevant to their own personality. This difference is especially visible in the aspiration for independence and creativity. The need for independence and predisposition for innovation are significantly higher in case of potential entrepreneurs than average. However when it comes to target-orientation and risks assumption, potential entrepreneurs perform slightly above those who do not intend to start a business.