

The Structure and the Resources of Entrepreneurial Network - Essential Factors to Survival and Performance. The Case of Study Romania

Adela Vădăsteanu

National Institute for Research and Development of Isotopic and Molecular Technologies
Technical University of Cluj-Napoca, Cluj-Napoca, Romania
adella.vadasteanu@itim-cj.ro

Stelian Brad

Technical University of Cluj-Napoca
Cluj-Napoca, Romania
stelian.brad@staff.utcluj.ro

Adrian Bot

National Institute for Research and
Development of Isotopic and Molecular
Technologies, Cluj-Napoca, Romania
adrian.bot@itim-cj.ro

Abstract: *The level of entrepreneurial activity has a statistically significant association with economic growth. Only a few companies manage to grow or even to survive. Also, numerous studies reveal that the benefits provided by entrepreneurial network is part of the explanation for entrepreneurial success. Romania needs more entrepreneurs. In Romania the SMEs sector represents 99% of the total number of enterprises, contributing to 65% of GDP and 67% of the total workforce. Compared EU average density to SMEs, in Romania (number SMEs per 1000 inhabitants) is extremely low, standing at almost half the European average. If the European Union are currently assessed approximately 42 SMEs per 1000 inhabitants, in Romania the average density of business enterprises is 22 SMEs per 1000 inhabitants. And with strong regional disparities. This paper presents an analysis of the SME sector in Romania by region and comparing the performance of SMEs in the EU macroeconomic indicators, and an experimental study that attempts to examine regional differences in entrepreneurial network. Questionnaires were administered to entrepreneurs in three development regions of Romania, such as: București-Ilfov with a density of 50, 56 SMEs which represents 229% of the average Romanian, Nord-Vest region with a density of 24, 22 SMEs per 1000 / inhabitants, which one ranks very close to the average density of the SMEs in Romania (109%) and the Nord-Est region that has the lowest density of SMEs in Romania, namely 13,56 SMEs per 1,000 inhabitants. The study results suggest that while certain factors are common to the three regions, there are significant differences both in terms of entrepreneurial structure and benefits, being a direct relationship between the economic development and they.*

Keywords: *Entrepreneurial Ecosystem, Entrepreneurial network, SMEs performance, Economic growth.*

1. INTRODUCTION

“Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on 1 January 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth.” (Verheugen, 2005).

The new SME definition is “The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.” (European Commission, Recommendation 2003/361/EC).

The new SME definition is very important because in a single market with no internal frontiers, it is essential that measures in favour of SMEs are based on a common definition to improve their consistency and effectiveness, and to limit distortions of competition. This is all the more necessary given the extensive interaction between national and EU measures to help SMEs in areas such as regional development and research funding. For Member States, use of the definition is voluntary, but

the Commission is inviting them, together with the European Investment Bank (EIB) and the European Investment Fund (EIF) to apply it as widely as possible.

Micro, small and medium-sized enterprises (SMEs) play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises. (European Commission, 2005). In Romania the SMEs sector represents 99% of the total number of enterprises, contributing to 65% of GDP and 67% of the total workforce. Therefore, the development of the SME sector is a key priority for both targeted the European Commission and the Romanian economy.

Only a small number of SMEs are successful in obtaining exceptional performance and sustainable growth. Statistics showed that there is a failure rate of new business development (about 20% in the first year, 30% in the first 3 years, 40 to 50% in the first 5 years), (Ciucan-Rusu, 2010). Most SMEs are companies of subsistence and very small firms. Very few of these small firms can reach medium size, which, in the end, some of them have the potential to further develop in large firms, and this depends largely on the founders and entrepreneurs such undertakings (Nichter and Goldmark, 2009).

Some theories show that entrepreneurship occur mainly in "environments thrive with sufficient resources to transform the idea into action and ensure sustainability" and in contexts where local specialties are valuable legacies and current generations extend or find alternatives to these" (Ianoș and Heller, 2006). GEM reports shows that a country's entrepreneurial characteristics are shaped by the degree of economic wellbeing and entrepreneurial culture (Bosma et al., 2008, Bosma et al., 2009, Bosma et al., 2010).

Entrepreneurs occur among people when they are needed, by the combination of opportunities and being matched with their operation. Entrepreneurs perceive themselves as being among the few able to notice and solve a problem. From this point of view, some studies the distribution of information available to those who could be entrepreneurs, and, on the other hand, how environmental factors (access to capital, competition, etc.) exchange rate of emergence of entrepreneurs within society (Boier, 2012). A study conducted in 23 municipalities in 12 EU countries, we find that urban regions with high levels of economic growth and diversity of activities shows higher levels of entrepreneurial activity. (Bosma, 2014). When entrepreneurship is accepted as a profession for many members of society, the company develops faster. Entrepreneurship directly affects economic and social development of individuals. (Zare, 2008).

The starting point of this study is the idea that the entrepreneur is very sensitive to its environment, and therefore is affected by institutional and cultural context thereof. Variation entrepreneurial phenomenon between countries and / or regions depends on the economic, cultural and institutional (Freytag and Thurik, 2010).

This paper presents the evolution of two economic and social indicators (GDP per capita and unemployment) and the density of SMEs / 1000 inhabitants in 2008-2012, in three development regions of Romania (București-Ilfov region, which comprises and capital of the country, the Nord-Vest (Northern Transylvania) and the Nord-Est, different both in terms of socio-economic and entrepreneurial development. Secondly paper presents an empirical study on entrepreneurial network structure and the benefits they offer entrepreneurs in these three regions.

2. LITERATURE REVIEW

2.1. Importance of Studying Entrepreneurship

Entrepreneurship is a multidisciplinary field, with wide coverage in actualitate. Entrepreneurship is defined "as the territory of the scientific examination of how, by whom and with what effects are discovered, evaluated and exploited opportunities to create future goods and services" (Shane and Venkataraman, 2000). There are enough studies that demonstrate the important contribution of entrepreneurs to the economic development of nations (Praag, 2007), and also that successful entrepreneurs are responsible for growth. (Henrekson and Johansson, 2010). The private benefits have positive social external effects. Consequently, many developed countries and regions, including the EU and the US have implemented policies to encourage successful entrepreneurship. One is providing opportunities for people to develop human capital through education. In other words, these policies are consistent with the hypothesis that entrepreneurship involves skills that can be developed through education.

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European Union consider entrepreneurship as one of the key factors for the prosperity of its member countries. The need for business practices is evident in the Lisbon European Council's aim of developing the Union into a competitive and dynamic knowledge-based, capable of maintaining economic growth, generating jobs and creating new and better social coherence.

Entrepreneurship has a rejuvenating effect, training and transforming economies. This theoretical relationship has inspired a large body of empirical studies in developed countries are largely agree on the positive correlation between entrepreneurship and economic growth (Carree & Thurik, 2010). Entrepreneurship is usually seen as a positive result, and also as a pivotal economic development (Acs, 2005). Entrepreneurship has a positive effect on economic activity. Entrepreneurs, by introducing innovative ideas, products and production processes change the current economic conditions and causes future economic conditions.

The existing firms are forced to adapt to new standards and those that are unable to deal it will disappear. This process of "creative destruction", increases productivity and regional competitiveness and, as a result, regional economic development. New businesses are started on the basis of perceived business opportunities that are left unexplored by existing firms. It is necessary to distinguish between opportunity and necessity as starting points in starting a business (Schumpeter, 1912). For there to be entrepreneurial, must be first entrepreneurial opportunities. Entrepreneurial opportunities are those situations in which goods, services, materials, and methods of organization can be placed and sold at a price higher than their cost of production (Casson, 1982). Although the recognition of entrepreneurial opportunities is a subjective process, possibilities of recognition are objective phenomena that are not known to all at any time (Shane and Venkataraman, 2000). Perceptions are a mediator between preferences and entrepreneurial behavior. They affect both the referral opportunities and exploitation of results. (Tversky, A., Kahneman, D., 1992).

2.1.1. Entrepreneurial Ecosystem

Fostering entrepreneurship has become a core component of economic development in cities and countries around the world. The predominant metaphor for fostering entrepreneurship as an economic development strategy is the "entrepreneurship ecosystem" (Isenberg, 2014). Entrepreneurial ecosystem is a relatively new term, initiated by James More in the 1990s. He argued that businesses do not evolve in a "vacuum"; companies interact with suppliers, customers and financiers (Moore, 1993). Entrepreneurial ecosystem is a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of 'blockbuster entrepreneurship', number of serial entrepreneurs, degree of sell-out mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment (Mason and Brown, 2014).

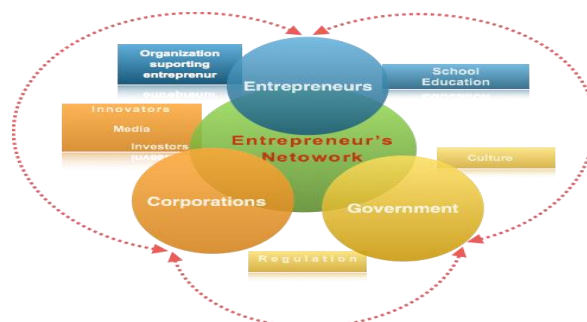


Fig1. Entrepreneurial Ecosystem

Important aspects of an entrepreneurial ecosystem include its culture, the availability of start-up and growth capital, the presence of large firms, universities and service providers. Creating entrepreneurial ecosystems poses various challenges for policy-makers. There are several general principles that need to be followed. Policy intervention needs to take a holistic approach, focusing on the following: the entrepreneurial actors within the ecosystem; the resource providers within the ecosystem; entrepreneurial connectors within the ecosystem and the entrepreneurial environment of the ecosystem. Finally, it is important that policy-makers develop metrics in order to determine the

strengths and weaknesses of individual ecosystems so that their strengths and weaknesses can be assessed, to identify whether and how to intervene, and monitor over time the effectiveness of such interventions. (Mason and Brown, 2014).

Around 50% of new businesses are going bankrupt in their first five years of activity. Enterprises often feel the lack of a suitable ecosystem to thrive (European Commission, 2013). Recent studies say that although there are striking differences in entrepreneurial ecosystems of the region, there are several ways of entrepreneurial success and to move to a higher level of entrepreneurial weaknesses need to be addressed by each specific reforms, yet each can learn from the other to improve the entrepreneurial ecosystem and emerging economies can follow to develop successful entrepreneurial ecosystem and achieve entrepreneurial success (Kshetri, 2014). Dynamic ecosystems offers enterprises better opportunities to grow and create jobs compared to with firms in other locations (Rosted 2012). If in 2010 in Romania lacked an ecosystem to support entrepreneurs with global ideas (Fusu, 2010), in recent years it began to grow something that can be described as an 'incipient entrepreneurial ecosystem' (Bogdan, 2014).

2.1.2. Entrepreneurial Network

Entrepreneurship cannot merely be understood in terms of 'personality characteristics' or in sterile economic terms. Entrepreneurial activities are results of social interactions and mechanisms. (Ulhøi, 2005). Networks are important to entrepreneurship because they facilitate the efficient movement of resources (knowledge, financial capital) to entrepreneurs and of information about entrepreneurs to a wider community. In addition, networks have an important normative component as they help to create, convey, and sustain expectations and norms within a region. (Aldrich et al 1986). The ability of a firm to develop and manage relations with key suppliers, customers and other organizations and to deal effectively with the interactions among these relations is a core competence of a firm – one that has a direct bearing on a firm's competitive strength and performance (Ritter et al, 2002).

(Larson and Starr, 1993) showed that a more developed network in terms of number of connections and the quality of relationships is more beneficial to the company than a less developed network and discovery opportunities, providing resources and obtaining legitimacy, that have importance for survival and performance. (Elfring and Hulsonk, 2003) Also, numerous studies reveal that the benefits provided by entrepreneurial network is part of the explanation for entrepreneurial success. (Elfring and Hulsonk, 2003).

Research in entrepreneurship argues that business networks should include a mix of formal and informal agents (Birley, 1985; Blake, 2001). Informal networks include family, friends, employees, previous employers, and so forth, whereas formal networks comprise those support people, such as bankers, lawyers, accountants, and business consultants, who provide services to business owners (Aldrich et al., 1995; Blake, 2001). Because of their positions and their often extensive networks within a local business community, formal agents can confer on a nascent entrepreneur the trust and legitimacy they have built up. In this way consulting with a formal agent can provide an entrepreneur with immediate connections to the local business community, which in turn enhances and extends the person's existing relationships with, for instance, a specific industry through prior employment (Ram, 1999).

3. ANALYSIS OF MACROECONOMIC INDICATORS IN ROMANIA AND EU

Romania is a country located in South-Eastern Central Europe, divided into eight development regions and has a population of 21,316,420 inhabitants. Since 1998, the country was divided into 8 regions (NUTS II): Nord-Vest, Nord-Est, Vest, Centru, Sud-Vest, Sud, Sud-Est, București-Iilfov).

The territorial plan, Romania, after the fall of the communist bloc in 1989, in 25 years of freedom, instead of balanced development of the country, we have huge discrepancies between regions. Compared to the large number of people among countries in the EU-28, Romania has too few enterprises, which translates into a low density of SMEs, ie only 22 SMEs / 1000 inhabitants, representing 52% of the European average of 42 SMEs / 1000 inhabitants. Moreover, it has a very unbalanced distribution between the 8 regions of Romania which emphasizes regional development disparities. At the end of 2012 Romania record 470,547 SME's, representing 99.7% of SMEs active and have a more significant contribution to job creation.

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Figure 2 shows the major discrepancies between regions in Romania compared to the European average. There is a direct relationship between density to SMEs, GDP (EU 28 = 100) and the risk of poverty rate.

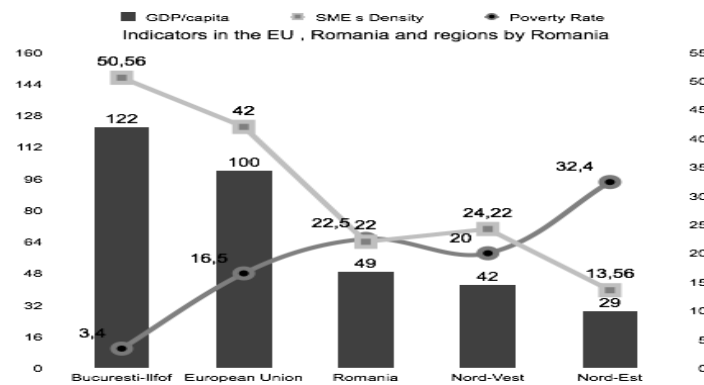


Fig2. GDP per inhabitants (EU=100), SMEs density and poverty rate in EU 28, Romania and Regions from Romania

Sources: Eurostat, National Institute of Statistics, own calculation

Romania is placed second last the European Union with a GDP per capita of 12 200 euros in purchasing power, representing 49% of the European average (25,100 per year), followed by Bulgaria with 47%. Regarding poverty rate Romania ranks last in the European Union with a percentage of 22.5%. The density of SMEs nationwide are 52% of the European average of 42 small sites. Nord-Est in Romania remains the poorest in Romania and the European Union, as GDP per capita, the purchasing power, 7,200 euros per year, representing only 29% of the European average, and a risk of poverty rate of 32.4%. To SMEs density is the lowest in Romania of 13.56 per 1000 inhabitants.

In the Nord-Vest region's GDP is 42% of the European average density to SMEs in the region standing at almost half the EU average and the risk of poverty rate is higher than the EU average of 21 percent. Instead, București-Ilfov region has a GDP per capita purchasing power as of 30.700 euros per year, representing 122% of the European average. This Romanian region is richer than any of the regions of countries such as Portugal, Greece, Hungary, Poland, Slovenia, Bulgaria. Risk of poverty rate is only 3.4%, almost 5 times lower than in the EU and to SMEs in this area density exceeds the EU average by 20%.

Analysis of the evolution of GDP per capita, and SME s Density Employment rates in the period 2008-2012 in three development regions of Romania: București-Ilfov, Nord-Vest and Nord-Est show major discrepancies existing in our country.

Table1. Evolution GDP per capita, Employment rate and SMEs density period 2008-2012

Indicators/ years	2008	2009	2010	2011	2012
București-Ilfov					
GDP per capita (ROL)	13.887	12.945	14.043	15.257	16.790
Employment rate (%)	84,8	80,1	78,5	79,5	80,3
SMEs density (%)	57,54	56,64	51,77	48,02	50,56
Nord-Vest					
GDP per capita (ROL)	5,915	5,466	5,942	6,459	7,136
Employment rate (%)	68,6	66,1	64,9	65,0	66,7
SMEs density (%)	28,86	27,85	24,93	22,95	24,22
Nord-Est					
GDP per capita (ROL)	4,026	3,643	3,953	4,301	4,744
Employment rate (%)	53,6	51,3	50,6	49,7	50,8
SMEs density (%)	16,33	15,86	14,30	13,11	13,56

Sources: National Institute of Statistics, National Commission of Prognosis

The GDP per capita in București-Ilfov increased by 20% compared to 2008, reaching 16 790 Ron in 2012, being 3.5 times higher than GDP / per capita in the Nord-Est region where he arrived in 2012 to 4,744 Ron per capita. SMEs density decreased continuously to in all regions during 2008 - 2011, saw slight increases in 2012, but not being able to reach the level of 2008. In București-Ilfov 2012, SMEs

density was 2 times higher than in the Nord-Vest and 3.7 times higher than in the Nord-Est. Employment rate has declined in 2008-2010. In 2011 there were slight increases in the București-Ilfov and Nord-Vest, but even this indicator has not recorded values in 2008. In București-Ilfov employment rate was 80.3% in 2012, 4.5 % less than in 2008, but 20% higher than in the Nord-Vest and 58% higher than the value recorded in the Nord-Est.

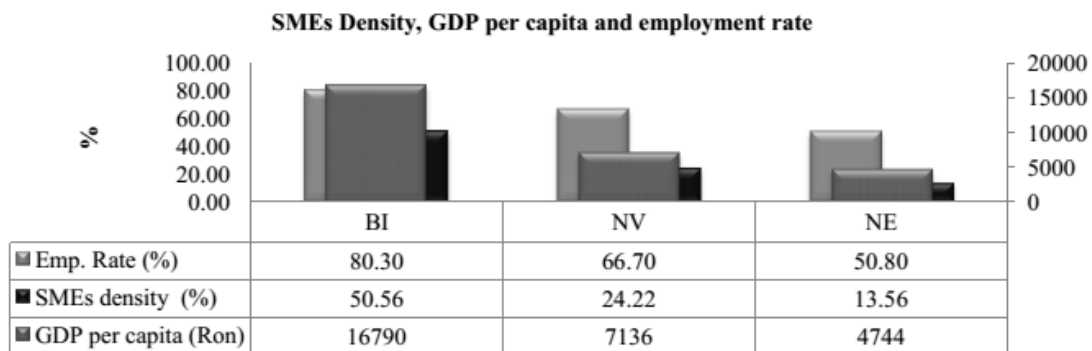


Fig3. GDP per capita, Employment rate and SMEs density -2012

SMEs have been hit by the severe decline of the national economy in the years 2009-2010, by the economic crisis, whose effects were spread in business by reducing consumption among the population and negative developments in key macroeconomic indicators. General context unfavorable influenced both active SME performance as well as demographic affairs in 2009-2012. The turbulence in the business had still not estimated impact on entrepreneurship and human capital

4. THE METHODOLOGY AND MODEL

The objective of the study was to measure the effectiveness and the benefits accruing entrepreneurial network. Questionnaires were given to entrepreneurs in three regions of Romania, different both in terms of socio-economic as well as entrepreneurial development. The study was conducted concurrently in the three regions in the period April-May 2014 and answered a total of 183 entrepreneurs (88 of București-Ilfov, 66 in the Nord-Vest and 29 in Nord-Est).

The study used simple random sampling technique and was considered to be representative. Selecting sample consulted was conducted to reflect the the profile of SMEs from each region. The sample was constructed using the database of the application "Lista Firme (Romanian-Companies)", of whom were excluded companies that they had smaller numbers than 3 employees. Respondents answered the following questions: "Highlight on a scale from 1 to 5 the efficiency actors in your network structure for the development your business" and "Highlight on a scale from 1 to 5 the benefits that we offer your entrepreneurial network."

We selected from the literature 15 important actors we have considered relevant to entrepreneurial network structure (family, friends, employees, customers, providers, business partners, bankers, Mass Media, lawyers, investors, mentors, scientists, R&D Institutes, universities and NGOs) and 11 benefits that these networks offers (legitimacy, information, new opportunities, access to financial resources, access to technological resources, access to HR, visibility, Know-how, access to new knowledge, identifying new markets, professional management. The options were categorized the rating from 1 to 5 where 1 is "not at all and 5 " very high ".

5. THE FINDINGS

The analyzed factors were represented by a number of observable indicators that respondents have rated on a Likert-type scale with values from 1 to 5. Responses were analyzed in terms of qualitative and quantitative, and each of the indicators measured were analyzed by calculating the arithmetic means and standard deviations. In addition, responses were compared between the three development regions in Romania.

Summarizing the data obtained, we notice that the "customers" are key of business structure for all three regions, followed by "business partners", "providers" and informal agents such as family, friends and employees, with no significant differences between regions. The weakest link of the network is the scientists. Instead, investors efficiency within the network is strongly differentiated between regions. While in București-Ilfov average is 4.33, in the Nord-Est average is only

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2.45, explained by the foreign direct investments which are predominantly in București-Ilfov (61.4%) of the total in the country (BNR, 2014). Also the efficiency entrepreneurs relationship with R&D institutes, universities and NGOs is quite low and no significant differences between regions, although the Bucuresti-Ilfov offer a more attractive framework development of relations with these institutions (52.17% R&D institutes and universities of the country are concentrated in this region) (AdAstra, 2011).

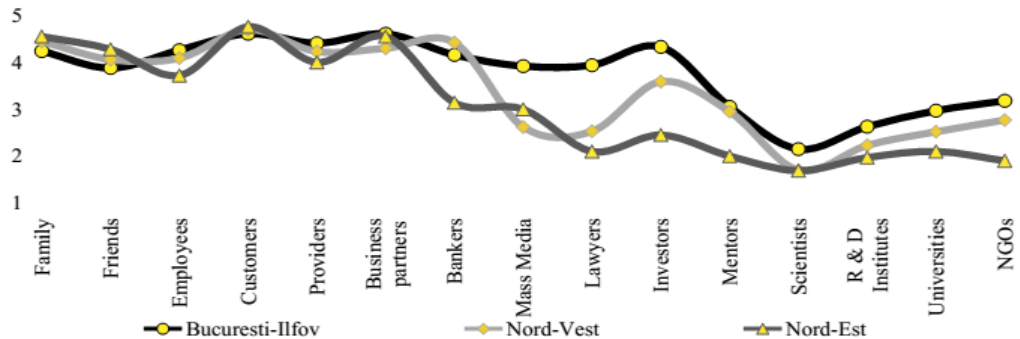


Fig4. Entrepreneurial Network Structure

Entrepreneurial Network benefits (Fig.5) are relatively close between the three regions. "Legitimacy" is in first place, followed by "access to information", and in last place is "access to financial resources," below the mean values for all regions (in București-Ilfov-2.47 respectively 1.76 in region Nord-Est). The large discrepancy occur in "discovery of new opportunities" (in București-Ilfov 3.95, in the Nord-Vest 2.6 and Nord-Est 1.83).

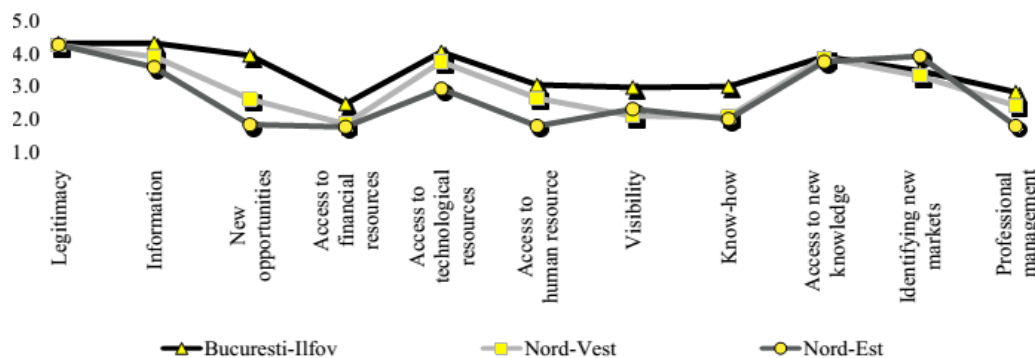


Fig5. Entrepreneurial Network Benefits

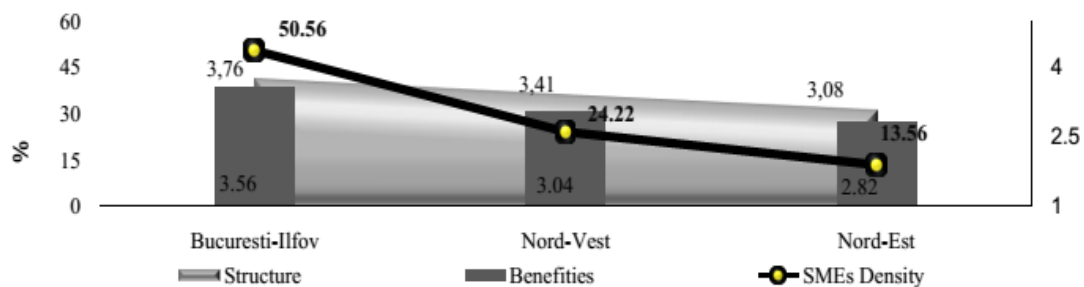


Fig6. Entrepreneurial Network Structure, the Benefits and Density of SMEs by Region

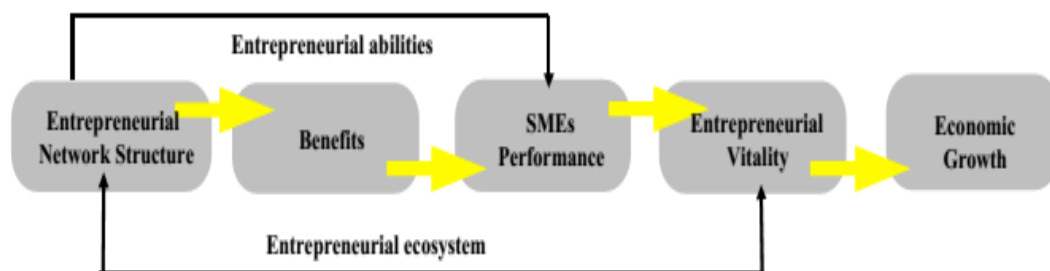


Fig7. Entrepreneurial network and economic growth

6. CONCLUSION

The results of the study undertaken showed that there is a positive relationship between entrepreneurial activity and economic and social development in a region and also there is a positive relationship between the network structure, the benefits they offer entrepreneurs and entrepreneurial activity in a region. Although the Bucurști-Ilfov region offers a much more favorable environment for business development than the other two regions, there are deficiencies in managing relationships. SME performance is influenced by both the framework conditions in which they grow as well as abilities of entrepreneurs. Romanian entrepreneurial ecosystem needs a business model based on values that stimulate entrepreneurial attitude and equally able to bring value in economy. Facilitating business networks and developing entrepreneurial skills are key to promoting entrepreneurial vitality in a region. Enterprise means entrepreneur. Environment and entrepreneur works according to the principle "action and reaction". If the environment is friendly, companies appear and grow and as a result, they will react on the environment by increasing welfare. Entrepreneurial ecosystem and its developments remain significant not only for the direction the economy is straightened to a region, but in a more broadly refers to the way people understand and think a human society to live their lives.

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AUTHORS' BIOGRAPHY



Adela Vădăsteanu is economist at the *National Institute for Research and Development of Isotopic and Molecular Technologies Cluj-Napoca* and PhD student in the *Technical University of Cluj-Napoca*. Her researches are oriented towards the development of the entrepreneurship dimension in SME's.



Stelian Brad is full professor in engineering and management of innovation in the *Technical University of Cluj-Napoca*. Stelian Brad is PhD scientific coordinator in "Engineering & Management". His research is focused focus on structured innovation in management, complex system design and intelligent industrial robotics.



Adrian Bot is General Manager of the *National Institute for Research and Development of Isotopic and Molecular Technologies Cluj-Napoca*. His research is focused on development and innovation in the unconventional technologies and alternative energies domains, as well institutional management.