

## DYNAMICS OF THE ENTREPRENEURIAL ECOSYSTEMS: COMPARATIVE ANALYSIS BETWEEN FRANCE AND ROMANIA

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*Abstract: Despite the European Union's concerted efforts to harmonize entrepreneurial growth and innovation across member states, significant disparities remain in the entrepreneurial landscapes of Western and Eastern Europe. France, with its mature entrepreneurial ecosystem, characterized by robust financial infrastructures, supportive regulatory frameworks, and a vibrant culture of innovation, contrasts with Romania's emerging ecosystem. This paper employs a mixed-methods approach, integrating quantitative metrics with qualitative insights. This comprehensive approach aims to identify the key factors contributing to the disparities and synergies between the two ecosystems. The outcomes of this research are anticipated to provide nuanced insights for policy makers, educators, and business leaders. By revealing the strengths and weaknesses inherent in each ecosystem, the study aims to inform targeted interventions and collaborative initiatives, fostering a more equitable, dynamic, and cohesive entrepreneurial landscape across Europe.*

*Keywords: Entrepreneurial Ecosystems, France, Romania, Comparative Analysis, Innovation, Policy, European entrepreneurship*

### **Introduction**

The entrepreneurial ecosystem is a term that reflects the combination of social, political, economic, and cultural factors influencing the growth of entrepreneurship within a particular geographical region. For the last years, the entrepreneurial ecosystems represent a focal point of study within both academic and policy-making realms due to their integral role in fostering innovation, economic growth, and job creation (Stam, 2015). These ecosystems are intricate and diverse, encompassing a network of interdependent elements. Isenberg (2010) was instrumental in detailing the six domains that constitute an entrepreneurial ecosystem: policy, finance, culture, supports, human capital, and markets. Understanding the synergies and complexities within these systems is important for formulating tailored policies and interventions that enhance the entrepreneurial environment (Mason & Brown, 2014). This paper aims to explore the entrepreneurial ecosystem within two countries: Romania and France, analysing the dynamics surrounding entrepreneurs and entrepreneurship. The ultimate goal is to measure the performance effects of the entrepreneurial ecosystem on the regional economy. In the European context, entrepreneurial ecosystems show distinct characteristics influenced by historical, cultural, and economic diversities, as well as overarching EU policies (Bosma & Sternberg, 2017).

### **Literature review**

The study of entrepreneurial ecosystems raises essential questions that necessitates further examination. Central to this discourse is the question of governance—namely, the identification of the responsible authority for establishing inclusive institutions that

stimulate the productive agents constituting regional entrepreneurial ecosystems (Baumol, 1990; Acemoglu and Robinson, 2013; Acs et al., 2014). Stam (2015) highlights the importance of supportive political institutions in facilitating the nurturing, encouragement, and support of entrepreneurs within these ecosystems. Another critical inquiry revolves around the definition of ecosystem services that a region aims to achieve (Stam, 2015). This involves a thorough understanding of what elements within the entrepreneurial ecosystem require improvement and what end goals should guide these activities, with a particular focus on outcomes such as productivity, employment, and income.

In the attempt to unravel the complexities of entrepreneurial ecosystems, the paper of Brown & Mason (2013) undertakes a critical evaluation of the entrepreneurial ecosystem concept. They shed light on the heterogeneous nature of these ecosystems and argue that the lack of specification and the conceptual development of the concept has hindered our understanding. Their study includes a critical review and conceptualization, analyzing dynamics, theoretical limitations, measurement approaches, and policy implications associated with the entrepreneurial ecosystem concept. The conclusion highlights the multi-faceted and diversified nature of entrepreneurial ecosystems, accentuating the importance of tailored policy interventions.

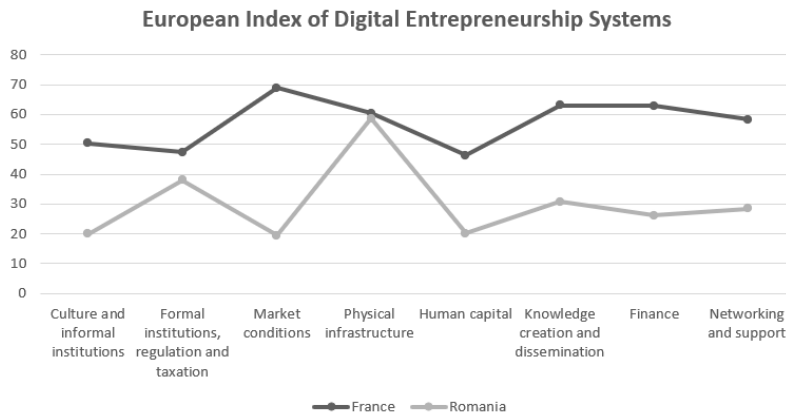
Bruns et al. (2017) introduced a method to detect the presence of entrepreneurial ecosystems within empirical data. They argue that variations in the quality of entrepreneurial ecosystems should manifest as variations in the estimated impact of entrepreneurial activity on economic growth. Their analysis, covering 107 European regions across 16 countries, reveals no significant heterogeneity in the estimated impact of entrepreneurial activity. Several explanations are offered, including the size of regional units and the influence of the European crisis. Miller and Acs (2017) propose considering the campus as an entrepreneurial ecosystem, diverging from traditional regional analyses. Their study leverages Frederick Jackson Turner's Frontier Theory to conceptualize the campus as a frontier for entrepreneurship and innovation. This shift in perspective not only offers fresh insights into the impact of higher education institutions on high-growth entrepreneurship but also challenges conventional regional viewpoints.

### **Comparative analysis**

Romania's performance in the realm of entrepreneurship is notably deficient. To gain a more detailed assessment of Romania's entrepreneurial landscape, we can turn to the European Index of Digital Entrepreneurship Systems (EIDES). This index provides a comprehensive evaluation, taking into account various factors encompassing cultural and informal norms, formal institutions, regulatory aspects, taxation, market conditions, physical infrastructure, human capital, knowledge generation and dissemination, financial resources, networking opportunities, and support systems. According to EIDES, Romania is ranked 26th out of 28 countries.

France on the other hand, occupies a distinct position within the spectrum of European countries in terms of its entrepreneurship ecosystem, occupying the 10th position. This ranking reflects the country's performance and progress, offering valuable insights into its strengths and areas requiring further development.

**Figure 1. European Index of Digital Entrepreneurship System in France and Romania**



Source: Own elaboration using data collected from EIDES 2020

Developing the elements that foster entrepreneurial activity takes time. Consequently, a country's current standing on the index may not entirely reflect recent changes in the entrepreneurial ecosystem.

#### *Policy framework*

As highlighted in the OECD Report (2021) the SME policy framework in France is comprehensive, focusing on enhancing the competitiveness, productivity, and innovation of SMEs while nurturing entrepreneurship. This approach encompasses support for both established SMEs and the promotion of new entrepreneurial initiatives. France's integrated policy is evident in initiatives such as the Action Plan for Business Growth and Transformation, which aims to streamline processes and alleviate administrative burdens for SMEs, fostering an environment conducive to new businesses. In operational terms, support is delivered through entities like BpiFrance, regional bodies, and local chambers of commerce. In contrast, according to an OECD Report (2018) Romania's SME and entrepreneurship policy, focuses on strengthening the institutional framework, transparent business environment, and access to finance. Challenges in Romania, as identified by the Small Business Act (2019), underscore the need for persistent attention to skills, innovation, and the single market, necessitating swift implementation of EU legislation, support for online trading, and improved ICT skills, along with intelligent regulation and enhanced administrative efficiency.

#### *Access to Finance*

In France, access to finance for startups and innovative companies is robust, as reflected in the significant inflow of funds in the tech sector. The country's well-established venture capital ecosystem, coupled with government initiatives, has contributed to an environment conducive to financial support. The EY French Venture Capital Survey for the first half of 2022 highlighted a substantial increase in investments, with several startups achieving unicorn status. The private equity sector in France is dynamic, and initiatives like the Action Plan for Business Growth and Transformation focus on providing better funding opportunities. Overall, France's approach to access to finance appears to be aligned with promoting innovation, growth, and competitiveness within its entrepreneurial ecosystem.

As per the Capital Market Review of Romania (OECD 2022), Romania faces challenges in supporting startups and innovative companies due to limited public financing structures favoring established businesses. The private equity sector in Romania is emerging, with recent years showing an uptick in fundraising activities, although it still represents a small percentage of the region's total. Romania's performance in private equity investments aligns closely with its GDP contribution to the Central and Eastern European region.

### *Human Capital*

In 2021, France demonstrated a robust tertiary education landscape, with over half of its population aged 25 to 34 holding higher education diplomas, impressively surpassing the EU-level target of 45%. Both men and women in this age group achieved tertiary education attainment at commendable rates, with a relatively narrow gender gap compared to other European nations. In contrast, Romania faced challenges in its tertiary education sector, exhibiting the lowest attainment rate among all EU countries at just 23.3%. Factors contributing to this include high rates of early school leaving, low success rates in the baccalaureate exam, and reduced participation from students from disadvantaged backgrounds. Rural areas in Romania bear the brunt of this educational disparity, with significantly lower tertiary attainment rates compared to urban settings. Romania also has a gender gap in tertiary education, with a lower percentage of men attaining tertiary education compared to women. While Romania excels in the percentages of graduates in ICT and STEM fields within the EU, there is still a gap in meeting skill requirements, indicating a need for targeted interventions to address these challenges.

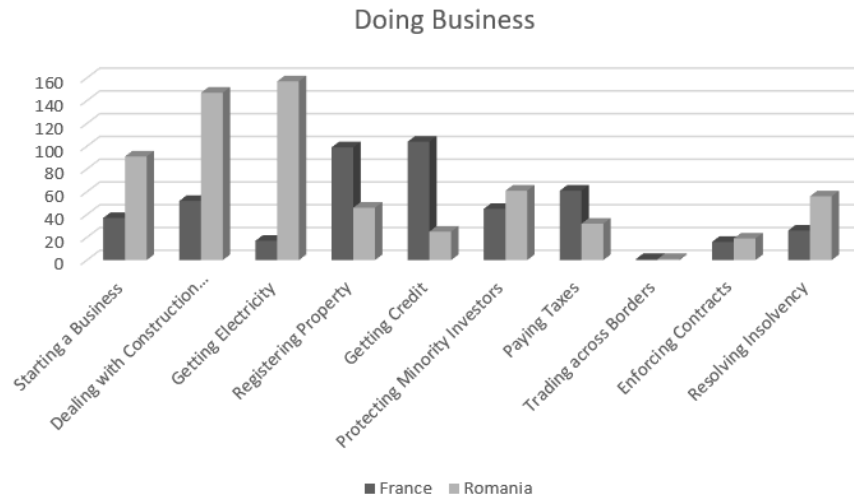
### **Results**

In Romania, the regulatory environment has not been favorable for fostering competition and entrepreneurship. While EU accession in 2007 initially spurred reforms, these reforms have often been reversed or weakly implemented. The regulatory framework in Romania is characterized by state control and additional barriers to entrepreneurship, hindering the growth of innovative and efficient firms. Compared to newer EU member countries, Romanian markets are more restrictive, making it challenging to start businesses. As per Doing Business Report (2020) barriers to entrepreneurship include an inefficient licensing and permits system, administrative burdens on startups, and regulations that limit how firms can structure their operations. Fundraising for startups in Romania is also burdensome, with many entrepreneurs reporting that it becomes a full-time activity, diverting attention from business development. The lack of clear regulations for seed funding mechanisms, such as angel investment and crowdfunding, creates uncertainties for investors and may discourage investments in high-potential startups.

Additionally, Romania's insolvency framework makes it difficult for firms to exit quickly and reallocate resources within the entrepreneurship ecosystem. The absence of a dedicated policymaking authority for startups, particularly high-potential startups, is a notable gap in the ecosystem. Existing institutions, rooted in education and research, do not possess the specialized expertise needed to support startups effectively. France's policy environment on the other hand, is a pivotal contributor to its entrepreneurial ecosystem, characterized by a combination of regulatory frameworks, incentives, and governmental supports that foster business initiation and growth. Over the years, the government has implemented

several reforms to reduce bureaucratic red tape, streamline business registration processes, and enhance the ease of doing business.

**Figure 2. Doing Business Indicators in France and Romania**

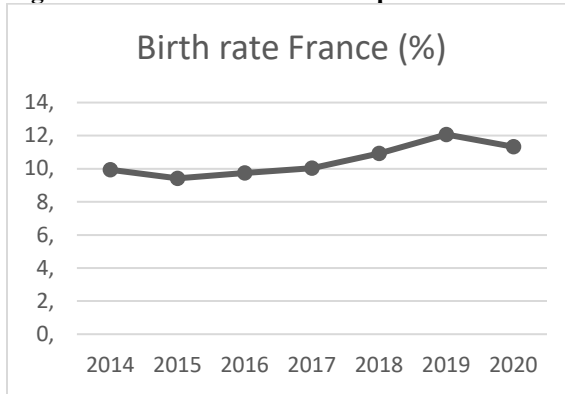


Source: Own elaboration using data collected from Doing Business 2020

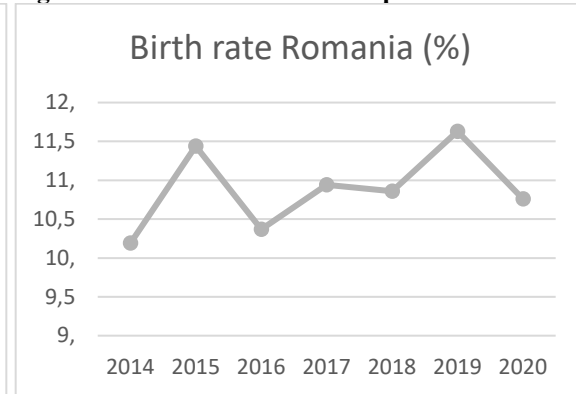
In the period 2014-2020, both France and Romania experienced dynamic landscapes in new firm creation, this indicates a robust entrepreneurial activity. But as it can be observed in figure 4, for Romania this values are fluctuating from one year to another, while France witnessed a more linear growth as it can be seen in figure 3, with substantial number of startups being established from one year to another, showcasing a thriving entrepreneurial spirit. However, a closer examination reveals concerns about the sustainability and quality of these ventures. Even though in Romania, a notable increase in new businesses occurred, concerns are surfacing regarding the quality of these firms at market entry. Romanian startups, particularly in their early stages, are facing difficulties in innovation compared to international counterparts (Cruz et al., 2022). Scaling up operations are also proving challenging for Romanian startups (Kapil et al., 2022), with factors like limited resources, lack of supportive infrastructure, and regulatory obstacles hindering their growth journey. These observations collectively underscore potential deficiencies in Romania's entrepreneurship ecosystem, necessitating targeted efforts to foster innovation, improve access to financing, enhance regulatory frameworks, and provide better support for startups looking to scale up.

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**Figure 3. Birth rate of new enterprises in France**



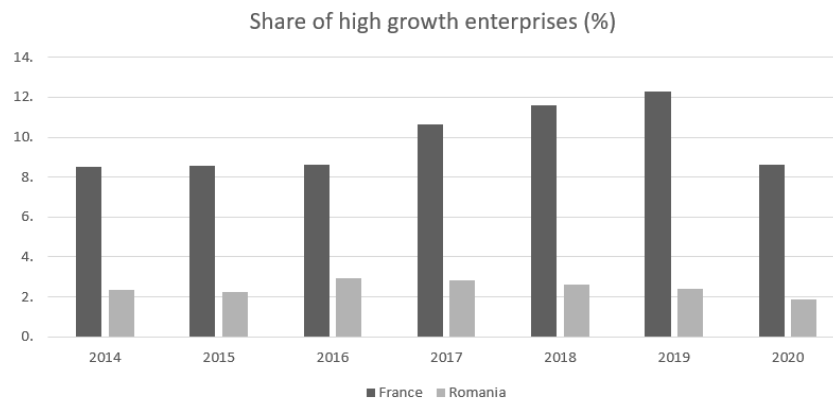
**Figure 4. Birth rate of new enterprises in Romania**



Source: Own elaboration using data collected from Eurostat

By addressing these challenges, both countries can not only enhance the quality of firms entering the market but also encourage their sustained growth and contributions to the broader economy. Hence, narrowing research to focus on the share of high-growth firms becomes crucial for a more nuanced understanding and effective interventions.

**Figure 5. Share of high growth enterprises in France and Romania**



Source: Own elaboration using data collected from Eurostat

The disparity in the number of new firm creations between Romania and France may be attributed to distinct entrepreneurial motivations within each country. Romania appears to witness a higher volume of new businesses, potentially driven by necessity-based entrepreneurship, where individuals engage in entrepreneurial activities out of immediate economic need. This may contribute to a larger quantity of startups but might pose challenges to the quality and sustainability of these ventures. On the other hand, France demonstrates a higher share of high-growth firms, indicating a more qualitative entrepreneurial ecosystem.

## Conclusions

The comparative policy environments of France and Romania reflect distinct developmental stages and orientations. France's policy framework is marked by maturity, with established regulatory, fiscal, and administrative supports that cater to a diverse array

of entrepreneurial ventures. Conversely, Romania's policy landscape, though progressively adapting, is characterized by dynamic shifts reflecting ongoing efforts to align regulatory and administrative frameworks with the evolving needs of entrepreneurs. The emphasis on high-growth firms suggests that the French entrepreneurial landscape is characterized by ventures with substantial scalability, innovation, and long-term viability. This distinction underscores the importance of not just considering the sheer number of new firm creations but also evaluating the qualitative aspects, such as the share of high-growth firms, to comprehensively assess the health and potential of the entrepreneurial ecosystems in these two countries.

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