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Macroeconomic Analysis of the Competitive Factors which Influence Innovation in Rural Entrepreneurship

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Abstract

In order to identify the main factors influencing the development of entrepreneurial innovation in the rural environment, the present study starts from the analysis of competitiveness at a macroeconomic level, by extrapolating all the factors at a regional level. Following the analysis of the relevant factors, a descriptive model was conceived pertaining to the development entrepreneurial innovation in rural areas. The model is centered on entrepreneurial innovation and is conceived as a nucleus in the development of competitiveness in the rural environment. The development of innovation may occur by the complex interaction of the four elements, which form what is known as Porter's diamond. Other relevant external factors are all the institutions which may influence innovation in the rural environment.

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Keywords: Innovation; entrepreneurship; competitive; macroeconomic; development.

1. Introduction

Competitiveness can be defined as that set of institutions, policies and factors which determine the current level of productivity of a country. Productivity determines both the welfare of an economy at a given time and its growth potential in the future [1].

American economist Paul Krugman defined the term competitiveness differently, depending on its area of application: at the micro level - the company or the macro- level: the economy of a country. Krugman states that, in

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essence, the competition between countries is not similar to competition between companies and the competitiveness is hardly a zero-sum game, as traditional economic theory considers. A country can benefit from economic growth recorded by other nations in a chain reaction: growth in a particular part of the world determines the appearance of new markets as well as of their sources of supply. Thus, unlike the traditional mercantile vision, being competitive does not mean causing disadvantage to trading partners, but also increasing and making full use of one's advantage [2].

In his "The competitive advantage of nations" [3] M. Porter showed that in order to explain the economic success of a country or region it is not sufficient to resort to the classical theory of production factors, but also to the complex interplay of factors which compose "Porter's diamond." In Porter's vision, competitive advantages are influenced by the natural environment and the existing national and international climate. In this regard, there are items such as the existence of factors of production and the geographical position of a country, but also elements regarding the evolution of the international climate that cannot be influenced by that State (changes in international prices, changes in international markets, political events and social, technological changes, etc.). On the other hand, there are a number of factors that can be influenced by government action. Public investment, government procurement, subsidies, the legal framework of the internal market, consumption norms and standards are all ways of generating competitive advantages. Considering the specific political decision, it is important to have a global approach to the system of competitive conditions through a coherent government action to improve the country's competitive advantages [4].

2. Theoretical background

The economic goal of an entrepreneur and the social objective of rural development are more interlinked in rural rather than in urban areas. For this reason, rural entrepreneurship is primarily based on the community, has strong extended family ties and has a relatively large impact on the rural community [5].

The choice of the indicators of rural development depends on the objectives proposed by economic policies, such as creating jobs, increasing productivity, competitiveness, stimulating innovative enterprises etc. as well as on the national context and demographic structure of enterprises.

2.1. The diamond of local competitiveness

The diamond of local competitiveness requires an analysis of each local economic sector in terms of the four elements considered to be the four sides of the diamond:

- Determining factors (location, natural resources, human resources, financial resources, technology and infrastructure);
- Company strategy and structure (policies and strategies, objectives, competencies and skills, motivation, culture and local tradition and awareness);
- Demand (market, customers, the pace of market growth, the level of innovation and complexity) and
- Support industries (suppliers, subcontractors, related industries and competitors).

Other external factors considered relevant in enhancing the competitiveness of rural areas are represented by all the institutions that can influence innovation in entrepreneurship, such as:

- State institutions,
- Institutions of education,
- Institutions for innovation support,
- Networks of business environment.

The composition of the elements forming the model of innovation competitiveness in rural areas is presented in Fig. 1.

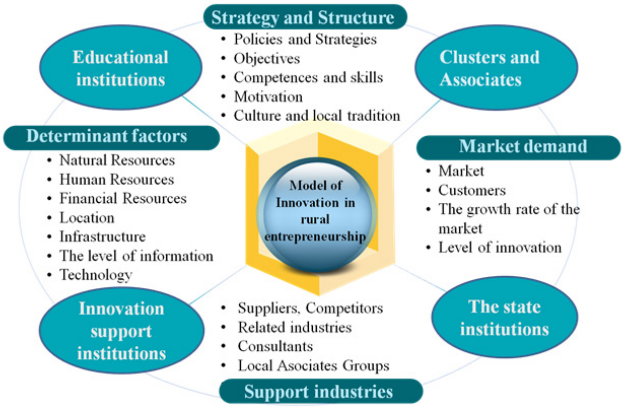

Fig. 1. Model of entreprenurial innovation competitvenes in rural environment

2.2. Factors which influence the development of rural economy

Rural economic development requires focusing on the development of the agricultural sector and of the entire production potential by integrating them with human capital development, infrastructure development and social development. The development of rural entrepreneurship and of the existing opportunities contributes on the one hand to increased productivity and, on the other hand, to improve the living standard and welfare of residents in rural areas.

Following previous studies on innovation in the development of rural entrepreneurship and national competitiveness [1], one may note an unfavorable situation of many factors influencing the development of rural economy. Despite progress regarding privatization and increasing efficiency, companies' access to capital remains very limited. The use of obsolete technology and equipment drastically reduces productivity in most industries. Entrepreneurship development remains a priority in economic competitiveness, focusing on improving deficiencies regarding the lack of specific funding instruments, of guarantee schemes, of supporting market access in view of increasing competition in all areas, and the extremely limited access to technology. Scientific research has suffered from the constantly declining level of investments in the public and private sector, of the number of highly qualified specialists, and due to the extremely low number of centers of excellence.

As far as demand is concerned, purchasing power is low in many areas, given the average net monthly wage of just 200 Euros. The level of complexity of the demand in many areas is below the European one. Under these conditions, internal pressures for certification and standardization were low, which limits the ability of Romanian products to enter foreign markets and, ultimately, limits competitiveness on the internal market, given the country's EU membership and trade liberalization [6].

In terms of company strategy and structure, reduced management skills are also a national problem which occurs mostly in rural areas. Most local companies still build their competitive strategies on low costs rather than improved productivity. The number of innovative companies is three to four times lower than the European Union average. There is no infrastructure to support innovative start-ups and past initiatives (business incubators, etc.) did not have continuity because of poor planning and management.

The current regional strategies and policies based on competition models are oriented towards innovation and knowledge, using the concept of high-tech geographic clusters considered to be the important factor of divergence between regions. Theories based on innovation focus on an important mechanism by which companies develop and obtain key skills needed for rapid growth and success. In this respect, specialized labor is a key indicator, because it distributes and combines knowledge in a complex system. Regions thus become "Regions of Knowledge", with n increased level of attractiveness and development. [7]

In terms of industries and support services, the Romanian economy presents major flaws. Many economic sectors have developed either due to natural advantage (wood processing, construction materials, tourism) or as a result of massive state intervention (machinery, metallurgy). Both judgments have determined a low degree of aggregation and cooperation within the same sectors, with serious gaps in ensuring quality input for end products and providing sales channels, innovation capabilities or promotion. The network of the business environment presents numerous sectors lagging behind, and support services are still at an early stage of development. The SME sector, which employs almost two million people, has practically no access to specialized consultancy services.

Location is a process of conscious choice of an optimal place for carrying out an economic activity, representing also an influential factor in economic development due to the existence of natural resources and, subsequently, by the existence of knowledge / innovation, and by the presence of certain requests or needs . Seen from the perspective of the natural resources in the region, location aims to minimize transportation costs, optimize expenses incurred from activities located in areas where the existing conditions result in profits or very high income sources. Currently, changes occurring in economic activity caused by globalization, regionalization, economic crisis have led to changing the perception of location and therefore of the factors that require the selection of a specific location [8].

Thus, the importance of natural resources as the main location factor was reduced both quantitatively and qualitatively, with the change in conditions of transport and infrastructure. In this context, the location of activities should be the central concern of both the entrepreneurs and the state institutions which can influence decisions using rules and policies of regional development.

There are other additional determinants of competitiveness, which must be regarded in close connection with the process of competitive development. Infrastructure has serious deficiencies, both in terms of quantity and quality. The access to tertiary education is still below the regional average, with a very unfavorable situation in terms of graduates in rural areas (in conjunction with a low degree of urbanization throughout the country).

3. Conclusion

Following the development of descriptive model analyzing the factors which influence innovation in the development of rural entrepreneurship, it can be concluded that stimulating entrepreneurial activity may provide an alternative to economic development in rural areas. The direct effects on jobs and on growth are modest in these areas and often favor specific population segments. The proposed model emphasizes the role of the factors outlined in the four corners of the diamond (determining factors, company strategy and structure, demand and support industries in terms of the competitiveness in rural areas. The other factors considered external are relevant to the economic development of rural areas and are represented by all institutions that can influence innovation in entrepreneurship.

There are many obstacles hindering the development of entrepreneurship in rural areas, influencing both the size and form of entrepreneurial activity and its chances of success. It can be also said that unofficial institutional factors, such as lack of positive examples of entrepreneurs (role models) and limited networks are some of the most important barriers to the development of entrepreneurship in rural areas [9]. In the absence of role models in entrepreneurship, economic agents do not have the strength to make the decisions needed to become an entrepreneur.

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