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# THE RISKS ASSOCIATED WITH START-UPS IN ROMANIA, IN THE CONTEXT OF THEIR FINANCING FROM EUROPEAN NON-REFUNDABLE FUNDS

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**Abstract:** Starting with 2008, the non-returnable funds represent an essential element for business development in Romania. At the end of September 2019, 9.685 start-ups were financed, the value of non-returnable grants offered exceeding 290 million Euros, out of which approximately 42 million Euros were introduced in the state budget within one year by contributions to wages. Through such start-ups, 396 fields of activity have been generated with over 19.000 persons hired. In this context, it is necessary a detailed scientific analysis with respect to the management of risks within the projects and start-ups financed by European non-returnable funds

**Keywords:** Management of risk, Start-up, Non-returnable funds, Business, Entrepreneurial development

## 1 THEORETICAL ANALYSIS OF SPECIALISED DOCUMENTATION RELATED TO GENERAL MANAGEMENT OF RISKS

The "risk" represents, in our opinion, one of the most important elements governing our existence, both personally and professionally. If we consider the origin of this word, we shall notice that it comes from French (risque), by definition being an uncertain element which suggests the possibility of failing to reach the objectives and scope planned. Considering such issues, we have detailed this notion in this article with a view to contribute to the scientific substantiation of Management. Therefore, we have approached the Management of risk in the context of non-returnable financing of start-ups in Romania. This aspect has been analysed considering the following work section focusing on 62 start-ups financed by European funds, out of the 13 counties of South-Muntenia and Centre, sharing the following common elements:

- Each start-up received 178.340,00 lei (out of which 133.755,00 lei after signing

the grant contract and 44.585,00 lei upon achieving a minimum turnover of 40.127,00 lei) - 100% non-returnable, based on a business plan:

- Each start-up enjoyed a 12-month period for the implementation of the business plan;
- Each start-up implemented the business plan between 2019 - May 2020;
- Each start-up had the obligation to hire minimum 2 individuals during the implementation of the business plan;
- Each start-up had the obligation to maintain the 2 workplaces created, for 6 months as of the end of implementation, respectively between June - November 2020;
- Each start-up was registered in the urban environment of the counties afferent to the two regions;
- Each start-up achieved, during the 12 months of implementation, a minimum turnover of 40.127,00 LEI, receiving as well the second tranche in quantum of 44.585,00 LEI;
- Each start-up enjoyed entrepreneurial support for 6 months (until signing the grant contract) with a view to develop the following competences: management and entrepreneurship, public procurements, durable development, accounting and taxation;

All start-ups are registered in terms of Law 31/1990 of companies, with subsequent amendments and completions, as limited liability companies (SRL), with a share capital of 200 Lei.

All start-ups financed have sole shareholder being also a sole director;

The management of risks entails the identification and evaluation of potential risks/critical situations which may occur pursuant to implementing some actions, as well as the identification and laying down some measures which may reduce the possibility of occurrence of any risk or, if the risk has occurred, to reduce its impact as much as possible.

In the context of this article, the Management of risk (Niculescu and Rusu, 2011) is analysed from the perspective of Project Management (Niculescu and Bâgu, 2011a) and Business Management (Niculescu, 2011).

Project Management or Project Cycle Management is often used in the elaboration, evaluation and implementation of projects financed by European non-returnable funds. In 1992, the European Commission (EC) introduced the term of ”Project Cycle Management (PCM)” – the Project Cycle Management offers the possibility to elaborate and implement projects considering the Logical Matrix. The Logical Framework or Logical Matrix is the method most often used on the level of institutions and organisations in the States Member of European Union supervising and implementing the management of projects in process of implementation or during the sustainability period.

We may classify Project Management as being, essentially, a complex process of planning, elaboration, evaluation, organisation and control or a business project or plan leading to the achievement of particular objectives, by using limited human, time and financial resources.

We distinguish, within these non-returnable financing programmes, three kinds of entities involved in the management and financing of the projects of incorporation of start-ups: Supplier of minimis plan/ Management Authority and Regional Intermediary Bodies, Manager of minimis plan/ Project Beneficiary and Beneficiary of minimis support plan/ start-ups.

From the perspective of the Beneficiary of minimis support plan, the business plan relies on a range of obligatory parameters related to the elaboration of it. The elaboration of business plan is the process of defining some requisites in a clear and structured manner, using elements specific to project management, with a view to communicate all project data to all parties

involved, to evaluate performance, to analyse potential risks, to estimate the impact and identify the measures of reducing it and for the organisation and control of resource use with a view to achieve the target objectives.

The process of elaboration of the business plan entails determining the scope of the plan, the objectives to be achieved, the structure and elements specific to target group, the results anticipated, the activities necessary for the implementation of business plan and necessary resources (human, material and financial), as well as elaborating the implementation chart (GANTT) (Andronie, 2014).

Consequently, we notice that one element necessary and obligatory in the process of elaboration of a Business Plan is also the analysis of potential risks and impact which it may cause. Therefore, the management of risk may be interpreted as a process of identification, management, evaluation of risks and last but not least of supervision for the reduction of impact which it may cause. (Shayb, 2019)

Considering the foregoing, the identification and management of risks may be represented by the following sketch:

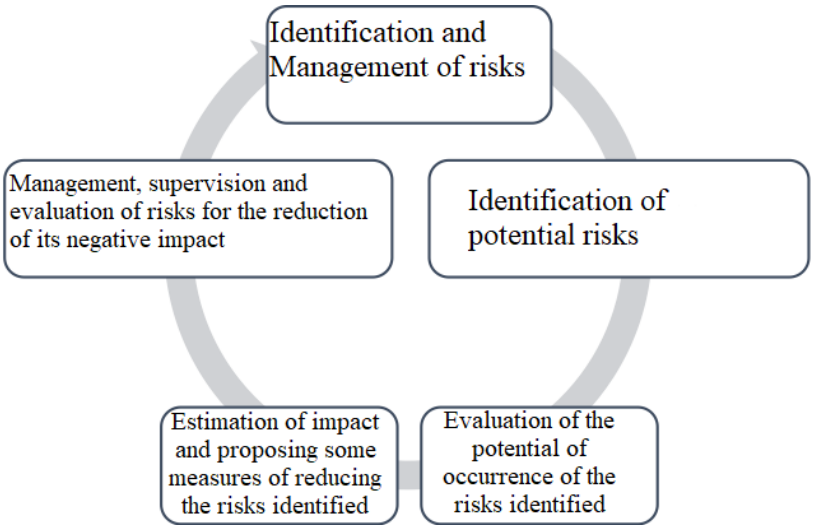


Figure 1. Cycle of identification and management of risks

## 2 IDENTIFICATION AND MANAGEMENT OF RISKS

1. Identification of potential risks
2. Evaluation of the potential of occurrence of the risks identified
3. Estimation of impact and proposing some measures of reducing the risks identified
4. Management, supervision and evaluation of risks for the reduction of its negative impact

We shall consider, in this article, the first three stages, since these are the most important. The first stage is materialised by identification of some potential risks and their source. Generally, the categories of sources generating risks are internal (staff of organization, technical equipments, work procedures and technological processes etc.) or external (political, economic factors, suppliers, market evolution, exchange etc.). The two factors may be controlled to a lower or higher extent depending on their specificity. Based on the identification of risks, they must be evaluated from the perspective of

their potential of affecting the company/ organization.

The second stage entails the Evaluation of the potential occurrence of the risks previously identified. The evaluation of the potential occurrence of a risk is influenced by the capacity of an organization to analyse the risks to which it is exposed considering the business carried out. Current practice classifies the risks, from the perspective of the possibility of occurrence, starting with the lowest probability of occurrence of a risk (low) and ending with the highest probability of a risk (high).

Table 1. Probability of occurrence of risks

| Risk | Probability of materialisation | Evaluation |
|---|---|---|
| HIGH | > 80% | The occurrence of a risk is almost certitude, and the measures of reducing the occurrence are a certitude |
| AVERAGE | Between 10% and 80% | The risk is inevitable, and the measures of reducing the probability of occurrence of it are not fully efficient |
| LOW | < 10% | The risk may occur in rare, exceptional situations. In principle, the probability of occurrence of a risk is rather low, and a failure is rather low, however, if it occurs, it may be controlled efficiently. |

Once identified and classified the risks which may affect a business plan, it is necessary to revaluate it with a view to estimate the impact it may have (during this phase, one shall propose as well a range of measures to reduce the risks identified, with a view to combat or minimise the estimated impact).

References are your entries in the alphabetical list at the end of your article or research note. This list should include all the works you have cited throughout the manuscript. The references should be formatted as follows:

Table 2. Impact of risks

| Impact | Presentation of impact |
|---|---|
| HIGH | The effect is major. It may cause irreversible effects such as the failure to achieve the objectives and/or the indicators planned during a particular period of time and they implicitly lead to the failure to meet the contractual obligations undertaken. Generally, the costs increase significantly in this situation, and legal consequences which cannot be avoided may occur as well (forced execution, full return of money, restriction to further financing etc.). |
| AVERAGE | The effect created is important. In this case, the effort to reduce it is higher both from human, material and financial perspective. The objectives and indicators may be achieved with delay or may not be achieved at all and the costs initially estimated shall increase. |
| LOW | The potential effect does not affect the implementation of any project, being easily controlled and supervised, and, based on firm measures of reduction, the occurrence of it may be controlled. It does not affect the achievement of objectives or the anticipated costs. |

By combining these 2 tables, we shall obtain an analysis of risks depending on its impact and potential of occurrence. For an easier supervision, we have evaluated numerically the possibility of occurrence of risks as follows: Low risk = ”3”, Average risk = ”2”, High risk = ”1” and its impact as follows: Low Impact = ”3”, Average Impact = ”2”, High Impact = ”1.

Table 3. Probability of occurrence of risks depending on impact

| | | Potential impact | | |
|---|---|---|---|---|
| | | Low | Average | High |
| Probability of occurrence of risk | Low | 3 | 3 | 2 |
| | Average | 3 | 2 | 1 |
| | High | 2 | 1 | 1 |

# 3 ANALYSIS OF INDIVIDUALS FROM SOUTH-MUNTENIA AND CENTRE WHO TEND TO TRANSFORM ENTREPRENEURSHIP INTO A CAREER

We have relied this analysis on the results obtained during two projects (ASURA1; ASURA2) with non-returnable financing having as general objective the increase of occupation by supporting the non-agricultural enterprises from urban environment through the promotion of entrepreneurial culture and development of entrepreneurial and managerial knowledge, skills and competences among 664 natural persons (unemployed, inactive individual, individuals having a job and who found a business with a view to create new work places) from South- Muntenia and Centre regions.

On a best effort basis in these 2 projects (Manea and Anghel, 2017; Manea, 2017), 664 individuals were identified in the 2 regions (331 individuals in South-Muntenia, 333 individuals in the Centre regions), interested in developing entrepreneurial competences to facilitate their transition from employee to entrepreneur.

Further on, it is presented an analysis of participants to the courses of entrepreneurial development with respect to:

- origin on level of regions, counties, urban/ rural environment;
- sex and age groups;
- pass rate;
- educational level.

The scope of this analysis is to identify, based on the sample presented, the profile of individuals who tend to develop an entrepreneurial career.

With respect to the origin of target group, the major interest among the target group to develop entrepreneurial skills and competences was registered on level of Covasna county (103 individuals of 331 individual on level of Centre region). Based on this statistics, we may deduce the rather high interest registered on the level of Teleorman county (78 of 333 individuals on level of South Muntenia. Each region has a top county with high interest in entrepreneurial development, between 7-10% of all participants. However, overall, the Centre region is more balanced in terms of the number of participants per county, without high differences between counties. For instance, on the level of South Muntenia, in Teleorman county, 78 individuals were interested in developing an entrepreneurial activity whereas in the counties of Argeș and Ialomița, the number of interested individuals is 24, the percentage difference being thus of 30.77% opposite to the top county in this region.

The pass rate on entrepreneurial development course is of 94.27% (626 of 664 individuals). This indicates that the persons identified have been really interested in developing their entrepreneurial skills. Based on the data collected, we may notice that South-

Muntenia registered the highest number of individuals who abandoned the idea of becoming an entrepreneur, 22 individuals stopped attending the entrepreneurial development course, of 333 individuals. Based on the data collected, women are more interested than men in developing their entrepreneurial skills. Out of 664 individuals, 383 are women. This trend is noticed as well on level of all counties, except for Teleorman (with 40 men and 38 women). Pursuant to analysing the date, we have noticed that entrepreneurial spirit is more developed in the age group 25-54 years (541 individuals), followed by the age group under 25 years (83 individuals). It is good to know that there is a motivation of change of status on labour market of individuals from the category of over 54 years (approximately 6% of interested individuals, respectively 40 individuals). (Manea and Anghel, 2017) With respect to educational level of individuals identified, the conclusion is that the percentage is the same for individuals with secondary education and superior studies namely, out of 664 individuals, 334 individuals have secondary education with ISCED 1-4, and the same number of individuals has higher education level with ISCED 5-8.

But, if we were to refer to the sex of participants, both in South Muntenia, and in the Centre, the high educational level is held by women. Out of 383 women, 209 have high education level (ISCED 5-8), respectively 115 from South Muntenia and 94 women in the Centre, unlike men, who, out of 281 individuals, only 123 have a study level ISCED 5-8 (out of which 52 men in South Muntenia and 71 in the Centre).

The last analysis concerned the origin of target group (urban/ rural environment). Although the general objective of the 2 projects consisted in encouragement and development of entrepreneurial culture and founding enterprises in urban environment, there was a particular interest as well among individuals from rural environment, however, the percentage was significantly lower, although rather hopeful (28%). 461 individuals from urban environment (out of which 232 in South Muntenia and 229 in the Centre), and 203 from rural environment ( 99 individuals in South Muntenia and 104 in the Centre).

Based on the results obtained pursuant to the analyses, the main profile of individuals who tend to turn entrepreneurship to career is the following: Individual from urban environment in South Muntenia, female, of age category 25-54 years, with high educational level (ISCED 5-8).

## 4 PRACTICAL ANALYSIS OF RISKS ENCOUNTERED IN 62 START-UPS FINANCED BY EUROPEAN NON-RETURNABLE FUNDS

The sample is formed of 62 start-ups (incorporated by 62 individuals of those attending the courses of entrepreneurial development) financed with 178.340,00 lei, (44% are managed by women and 56% are managed by men), presenting the common elements mentioned at chapter 1. Therefore, based on the foregoing premises, we have analysed the risks identified by the 62 contractors in the business plans for which they have received financing. 238 risks have been identified. We have classified the 238 risks in 8 major categories of risk as follows: Fluctuation of staff and absence of skilled staff, Defaults of equipments, machines and platforms used and occurrence of new technologies, Defective financial and technical management, caused by lack of experience of contractor, Legislative amendments, taxation and excessive bureaucracy, Economic crises, Occurrence/ increase of competition, Increase of rates of raw materials and dependence on suppliers and external collaborators, Delays in incorporating companies/acquirement of business permits, Insufficient clients, Insufficient promotion.

In the following table (SRAC) we have gathered the risks and the impact it may have if occurred.

Table 4. Categories of risks identified on level of enterprises and estimated impact

| Categories of risks identified | No. companies facing the risk | Percentage of occurrence of risk | Impact | | | Risk | | |
|---|---|---|---|---|---|---|---|---|
| | | | High | Average | Low | High | Average | Low |
| Fluctuation of staff and lack of skilled staff | 34 | 14.23% | 8 | 26 | 0 | 1 | 31 | 2 |
| Defaults of equipment's, machines and platforms used and occurrence of new technologies | 23 | 9.62% | 3 | 13 | 7 | 0 | 14 | 9 |
| Defective financial and technical management, caused by lack of experience of contractor | 62 | 25.94% | 31 | 26 | 5 | 1 | 49 | 12 |
| Legislative amendments, taxation and excessive bureaucracy, Economic crises | 29 | 12.13% | 17 | 9 | 3 | 0 | 26 | 3 |
| Occurrence/increase of competition | 16 | 6.69% | 5 | 10 | 1 | 0 | 15 | 1 |
| Increase of rates of raw materials and dependence on suppliers and external collaborators | 21 | 8.79% | 3 | 16 | 2 | 0 | 13 | 8 |
| Delays in incorporating companies/acquirement of business permits | 10 | 4.18% | 2 | 7 | 1 | 0 | 2 | 8 |
| Insufficient clients, Insufficient promotion | 44 | 18.41% | 8 | 25 | 11 | 2 | 33 | 9 |

We notice the presence of some risk categories, very important in the development of a start-up, in rather high proportions, on majority of companies financed. The risk ”Legislative amendments, taxation and excessive bureaucracy, Economic crises” appears within 29 companies (12.13%). The risk ”Fluctuation of staff and absence of skilled staff” appears within 34 companies, representing a percentage of occurrence of 14.23%. The first places are occupied by the risks” Insufficient clients, Insufficient promotion” and ” Defective financial and technical management, caused by lack of experience of contractor”, representing 18.41% of total risk categories (44 companies) respectively 25.94% of all risk categories (62 companies – the entire sample).

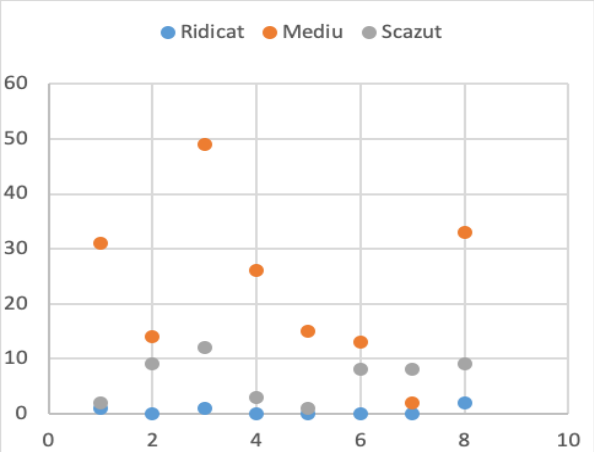


Figure 2. Distribution of risks depending on occurrence within the 62 companies

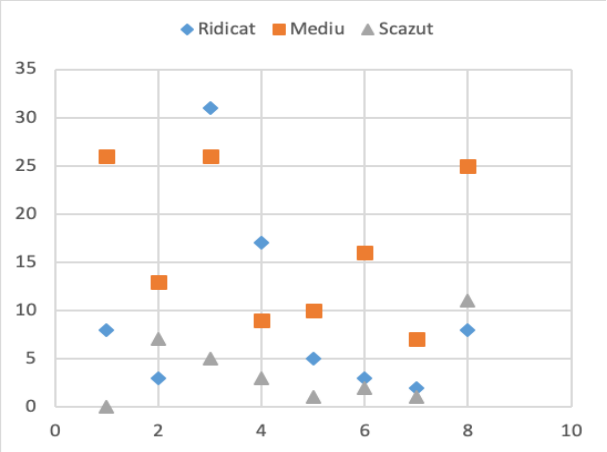


Figure 3. Distribution of risk impact on level of 62 companies

The results presented in Figure 2 certify that, considering the 8 categories of risks previously defined, there is a ”medium” possibility of occurrence of the risks identified, the risks with high degree of occurrence being very few. In Figure 3, we notice that, based on the categories of risks identified, the impact of a risk may be ”medium” and ”high”. The 2 graphics (Figure 4 and Figure 5) help us to corroborate the categories of risk with the most obvious degree of occurrence, with the impact that such risks may generate, according to Table 3.

Therefore, in order to be relevant, we shall consider the following issues:

- The situations when the occurrence of risks is ”medium”;
- Situations when the impact of risks identified is ”medium” and ”high”.

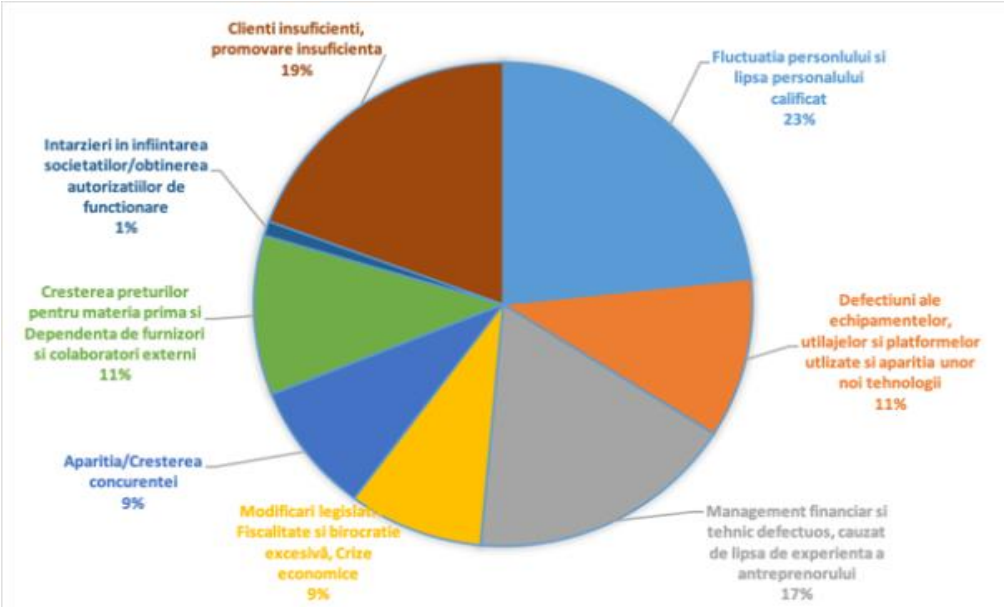


Figure 4. Representation of occurrence of medium risks with medium impact

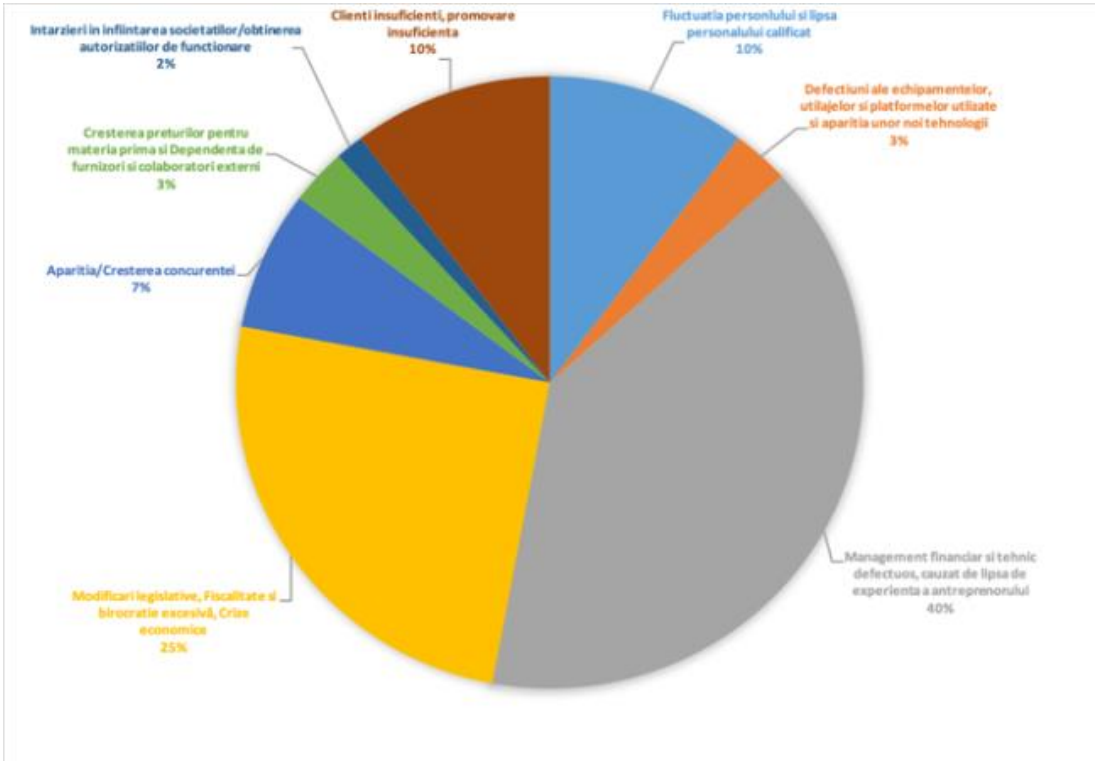


Figure 5. Representation of occurrence of medium risks with impact

## 5 CONCLUSIONS

The results obtained provide the scientific base with respect to statistical probability of occurrence of some risks and the impact it may cause, on level of start-ups financed by European non-returnable funds, which leads to the development of a simplified procedure of identification of risks and related measures of reduction.

Pursuant to the investigations made to determine the risks on level of start-ups financed by European non-returnable funds, which meet cumulatively a range of standard conditions, the following conclusions have been drawn:

The profile of individuals who want to carry out a business financed by European non-returnable funds is the following: have the domicile/residence in urban environment, they are mainly women, aged between 25-54 years and high educational level (ISCED 5-8).

The most frequent risks which also have a medium and high impact within the sample of contractors analysed, are:

- ”Defective financial and technical management, caused by lack of experience of contractor”
- ”Fluctuation of staff and absence of skilled staff”
- ”Insufficient clients, Insufficient promotion”
- ”Legislative amendments, taxation and excessive bureaucracy, Economic crises”

By corroborating the two results of investigation, it is necessary to study thoroughly the first three risks identified, since these are risks with an occurrence and impact which may be influenced more or less by the decisions of entrepreneurs.

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