

# Entrepreneurial Intentions of Youth: Theoretical and Empirical Approaches

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## ABSTRACT

The importance of entrepreneurship for the development of the economy has determined the measurement of entrepreneurial activity through different indicators. Given the particular importance of attitudes and personal perceptions for entrepreneurial initiative, multiple theoretical and empirical research are focused on the analysis of factors that motivate individuals to entrepreneurial activity. The purpose of the article is to synthesize empirical and theoretical approaches to entrepreneurial motivation. The article makes special reference to statistical data that targets young people's entrepreneurial intentions. At the same time, the article refers to the theoretical models that address the environmental factors and the personal characteristics of individuals as factors impacting the entrepreneurial initiative. In the analysis of impact factors, special attention is paid to education, which is approached as a pull factor of the entrepreneurial intention of young people.

Key words: entrepreneurship, youth, entrepreneurial intention, startup, motivation, opportunity, self-perceptions, behavior, knowledge, education.

## INTRODUCTION

Entrepreneurial initiative is considered as an important factor of economic activity, alongside capital, labor, nature, technology, information. Moreover, the entrepreneurial initiative is the one that observes opportunities and identifies how to put into operation or optimize the use of other resources. The particular importance of entrepreneurial initiatives for the economy is demonstrated by the many studies focused on analyzing the impact of entrepreneurship on the various economic variables (see Table 1).

Table 1

### Some views on the importance of entrepreneurship

J.B. Say (1803)	Entrepreneurs shifts economic resources from low to high productivity areas with higher yield.
J. Schumpeter (1911)	Entrepreneurship are the main vehicle to move an economy forward from static equilibrium, based on the combinatorial capabilities of entrepreneurial individuals.
E. Penrose (1950)	Detecting and exploiting opportunities for smaller firms is the basic aspect of entrepreneurship.
I.Kirzner (1973, 1997)	Entrepreneurial activity moves the market towards equilibrium as entrepreneurs discover profitable arbitrage possibilities.
W. Baumol (1990)	Entrepreneurial activity crucial for (radical) innovation and growth.
R. Holcombe (1998)	Entrepreneurs promote a more productive economy due to more efficient and innovative ways of production, it is the foundation for economic growth.
OECD (1998)	Entrepreneurs represents the ability to marshal resources to seize new business opportunities, defined broadly they are central to economic growth.
Ireland, Hitt, & Sirmon (2003)	Entrepreneurship is a context dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities.
Commission of the European Communities (2003)	Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organization.

The impact of entrepreneurship on economic variables has determined the increased interest of researchers in the factors that stimulate entrepreneurial activity. At the same time, annual reports are prepared at national, regional and world level, which are meant to carry out dynamic and comparative analyzes on entrepreneurial activity. Given the wide range of topics analyzed by research in this field, this article deals only studies focused on analyzing the factors motivating people towards entrepreneurship, special attention being paid to young entrepreneurs.

## STATISTICAL APPROACHES ON THE ENTREPRENEURIAL ACTIVITY

For the analysis of the entrepreneurial initiative of the population, were developed special methodologies that allow the comparative and dynamic analysis of the variables with impact on entrepreneurial activity. In our research, we will refer to two methodologies - the Kauffman Foundation methodology, which refers to the dynamic analysis of the entrepreneurial initiative in the US (general and per states) and the GEM methodology, which performs comparative analysis of entrepreneurial activity and of the entrepreneurial ecosystem at the global level (2018/2019 Report included data for 112 countries).

### The Kauffman Foundation Report

This report presents trends in startup activity over the past two decades for the United States. Trends in startup activity are presented on the basis of the Startup Activity Index, which is a composite indicator, calculated on the basis of three other indicators: 1. Rate of New Entrepreneurs – percent of population that start a new business (0.3% in 2017); 2. Opportunity Share of New Entrepreneurs – percent of new entrepreneurs starting businesses because they saw market opportunities, measures the percent of new entrepreneurs who were not unemployed before starting their businesses (84.4% in 2017); 3. Startup Density - number of startup firms per 1,000 firm population, startup businesses here are defined as firms less than one year old employing at least one person besides the owner (85.4% in 2016).

According to Kauffman Foundation Report, in 2013, the Startup Activity Index for US was at its lowest point in the last twenty years. At the same time, in the first two decades of the 21<sup>st</sup> century Startup Density is lower than in the 1980<sup>s</sup>, 90<sup>s</sup> of the 20<sup>th</sup> century. If in 1977, out of 1,000 companies operating in the USA, 175 were enterprises launched during the last year, in 2010 this indicator, this indicator is 78 (see Figure 1.)

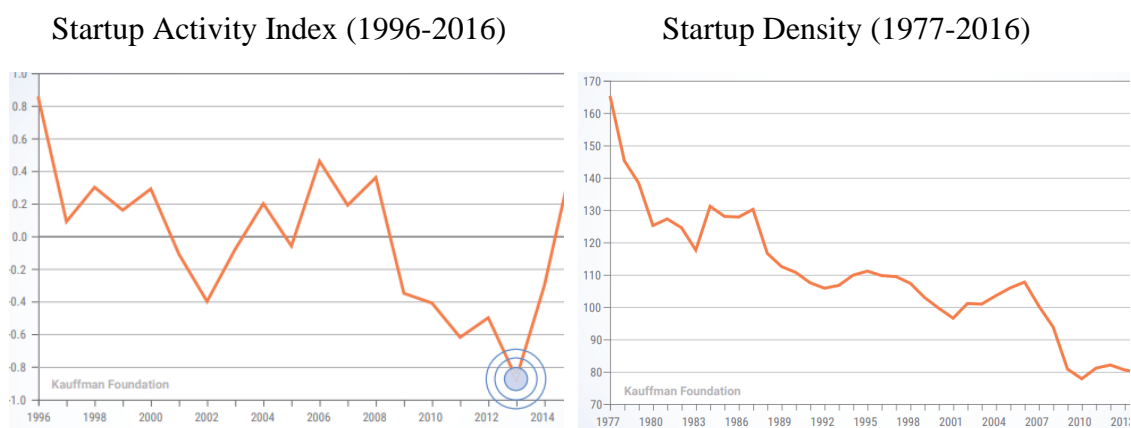


Figure 1. Some indicators from Kauffman Foundation Report<sup>1</sup>

<sup>1</sup>2017 KAUFFMAN INDEX 20 17, THE startupactivity NATIONAL TRENDS, Ewing Marion Kauffman Foundation, May 2017.

According to the Report, the Startup Density in US is in a long-term decline. At the same time, the authors of the report mention that Startup density in the United States overall has been stuck roughly 20 percent lower than pre-Great Recession levels for the last few years.

Besides analyzing the general tendencies in the field of entrepreneurial activity, the report also refers to the tendency towards the entrepreneurial activity of different categories of people. One of the directions of the analyzes is the structure of the new entrepreneurs by age categories (see Figure 2).

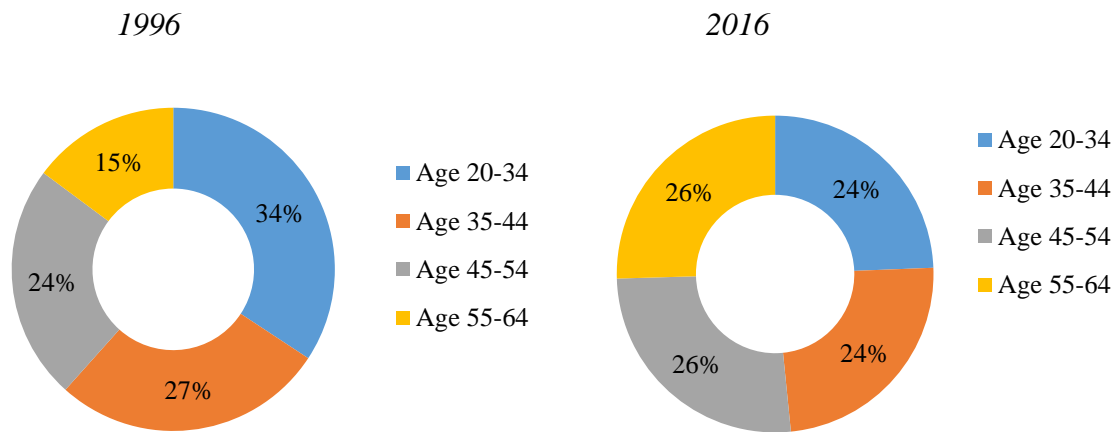


Figure 2. Changes in Compositions of new Entrepreneurs by Age (US)

The figure shows the trend of decreasing the rate of young entrepreneurs in the total number of entrepreneurs who launched new business, their rate being 10% lower in 2016 compared to 1996.

### Global Entrepreneurship Monitor (GEM)

GEM report is being drafted by an international consortium of universities and business schools, set up in 1999 at the Babson College initiative. The report is based on an international survey, conducted consecutively in 64 countries (for 2016/2017 Report).

The GEM Report tracked rates of entrepreneurship across multiple phases of entrepreneurial activity; assessed the characteristics, motivations and ambitions of entrepreneurs; and explored the attitudes societies have towards this activity. For analyzing entrepreneurial activity, GEM apply three indicators: 1. Total Early-stage Entrepreneurial Activity (TEA); 2. Established business ownership; 3. Business discontinuation rate.

The entrepreneurial initiative of the population in the current period is measured through indicator Total Early-stage Entrepreneurial Activity, which reflects percentage of the adult population who are in the process of starting a business (a nascent entrepreneur) or owner-manager of a new business which is less than 42 months old. Research shows that this indicator differs both for countries groups and for age groups (see Figure 3.).

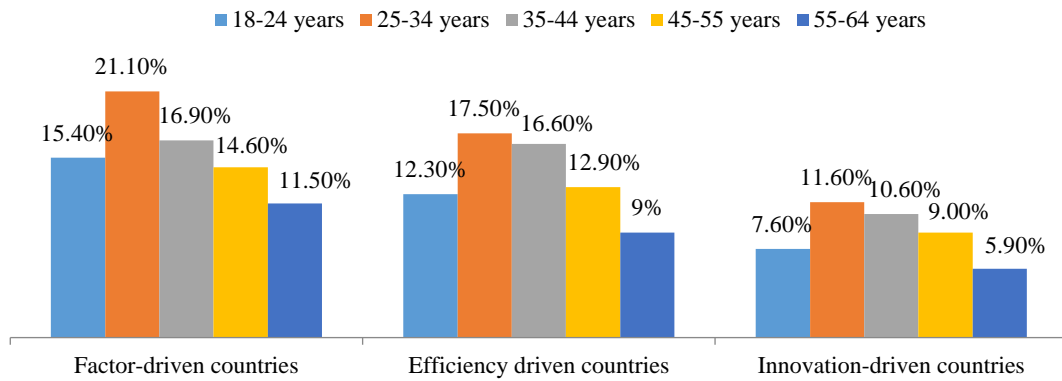


Figure 3. Total Early-stage Entrepreneurial Activity, GEM Global Report, 2016/2017<sup>2</sup>

According to GEM, TEA decreases with the country's growing levels of development, at the same time decreasing with the aging of the population –the indicator has the highest value for 25-34 year-old population and is the lowest for the 55-64.

GEM research is not just about determining the degree of population involvement in entrepreneurial activity. One of the directions of the research is to analyze the degree of perception by the population of business opportunities. According to GEM, the perception of good opportunities play an important role in determining whether an individual will even consider starting a business. The quantity and quality of the opportunities that people perceive and their belief about their own capabilities may well be influenced by various factors in their environment, such as economic growth, culture and education. Another factor taken into account is the fear of failure. Fear of failure can be influenced by intrinsic personality traits, as well as by societal norms and regulations (see Figure 4).

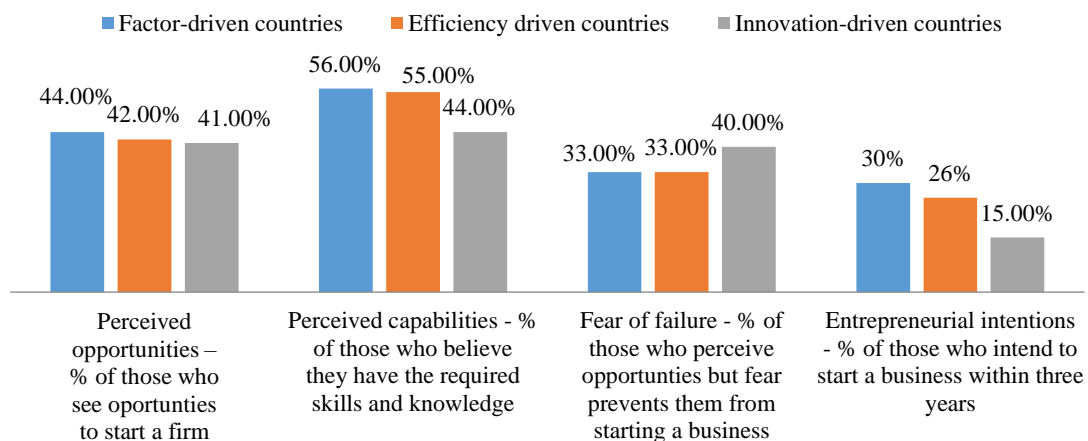


Figure 4. Population self-perceptions about entrepreneurship in 64 economies<sup>3</sup>

<sup>2</sup> GEM 2016/2017 Global Report, p. 29, <https://www.gemconsortium.org/report/49812>

<sup>3</sup> GEM 2016/2017 Global Report, p.19, <https://www.gemconsortium.org/report/49812>

Figure 4 indicates that on average, individuals in factor-driven economies have higher perceptions that there are good opportunities for entrepreneurship, and that they have the capabilities to start businesses. At the same time, fear of failure levels in the innovation driven economies are higher than for the factor- and efficiency-driven economies. The biggest discrepancy is in terms of entrepreneurial intention, with the innovation-driven economies reporting an average entrepreneurial intention rate that is half that of the factor-driven economies.

## **THEORETICAL APPROACHES TO THE ENTREPRENEURIAL ACTIVITY**

Theoretical researches in this field of entrepreneurial initiative can be divided into two categories: researches focused on the analysis of the impact of the business environment on entrepreneurial activity and researches focused on the analysis of the personal characteristics of the individuals involved in the entrepreneurial activity.

### **The impact of the environmental factors**

Regarding the impact of environmental factors on entrepreneurship, can be mentioned Michael H. Morris and Pamela S. Lewis (1995) research in which environmental factors are approached from three perspectives: the environmental infrastructure which characterizes a society; the degree of environmental turbulence present in a society; and the personal life experiences of a society's members. Each aspect of environmental factors involves multidimensional approaches, which, by their state, will influence the entrepreneurial activity of individuals. Thus, environmental infrastructure refers to economic, political, legal, social, financial, logistic factors; environmental turbulence can be dynamic, threatening or complex and personal environmental experiences are influenced by the educational system, family, working relationships, etc.

The combined effect of these environmental influences is the level of entrepreneurial intensity in society. The state of these factors will determine both the number of people involved in entrepreneurial activity and their behavior - degree of innovativeness, risk-taking and proactiveness. Each dimension of the environmental infrastructure, turbulence and life experience is pictured as a continuum on some characteristic. As examples, the political structure varies from totalitarianism to democracy, while the customer environment ranges from homogeneous to heterogeneous. The state of each element of the entrepreneurial environment at a certain point in time will stimulate or inhibit entrepreneurial activity (see Figure 5).

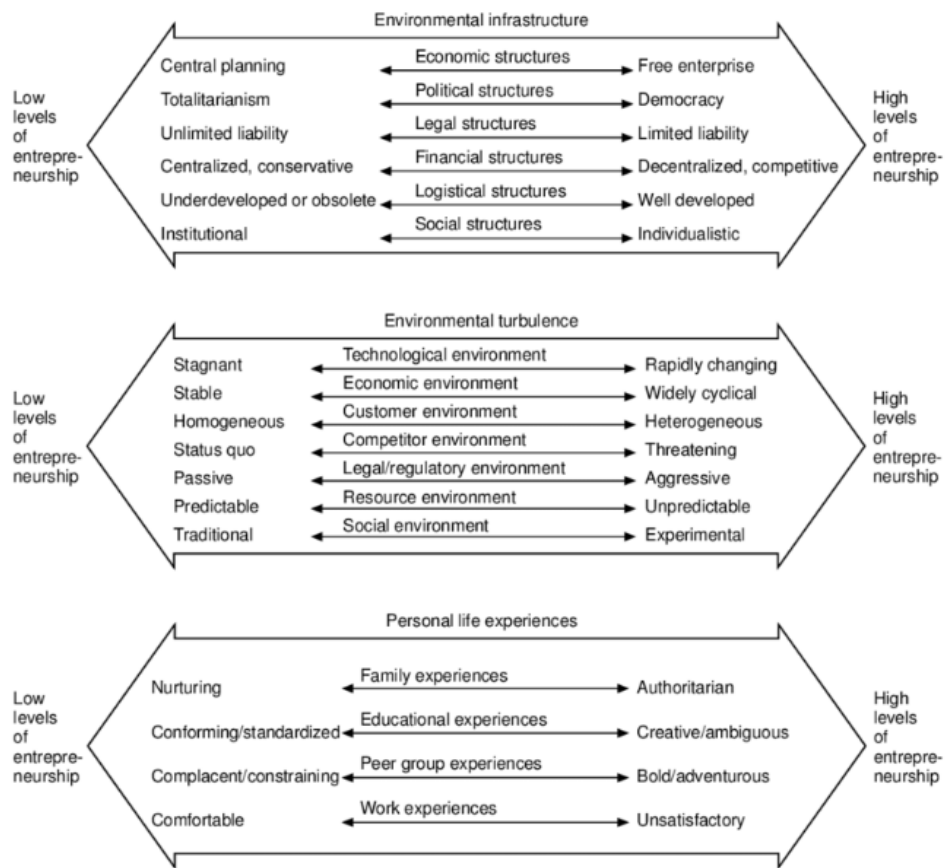


Figure 5. Relationships between environmental factors and levels of entrepreneurship<sup>4</sup>

According to the Morris&Lewis, the same environmental element can have a stimulating impact as well as can be an inhibitor of entrepreneurial activity. Thus, the rapidly changing technological environment stimulates entrepreneurial activity, while the stability of this environment is hindering it. At the same time, the comfort provided by employers to employees reduces entrepreneurial activity, while the unfavorable work environment stimulates it.

### The impact of personal characteristics

Along with the studies focusing on the analysis of the environmental factors influencing the entrepreneurial activity, there are many studies focused on the analysis of the profile of the persons involved in the entrepreneurial activity. Considerable researches on entrepreneurship are focused on the reasons that individuals are motivated to become entrepreneurs. For example, Rauch and Frese (2000) found that people are motivated to become entrepreneurs because they have a desire for economic wealth and high needs for achievement or autonomy. Canedo et al. proposed a model of entrepreneurial initiative analysis that linked the personal characteristics of individuals with the entrepreneurial process. The first variable in the model is the individual's motivation to become an entrepreneur or launch a new venture (see Figure 6).

<sup>4</sup>Michael H. Morris and Pamela S. Lewis. The determinants of entrepreneurial activity: Implications for marketing, European Journal of Marketing, July, 1995.

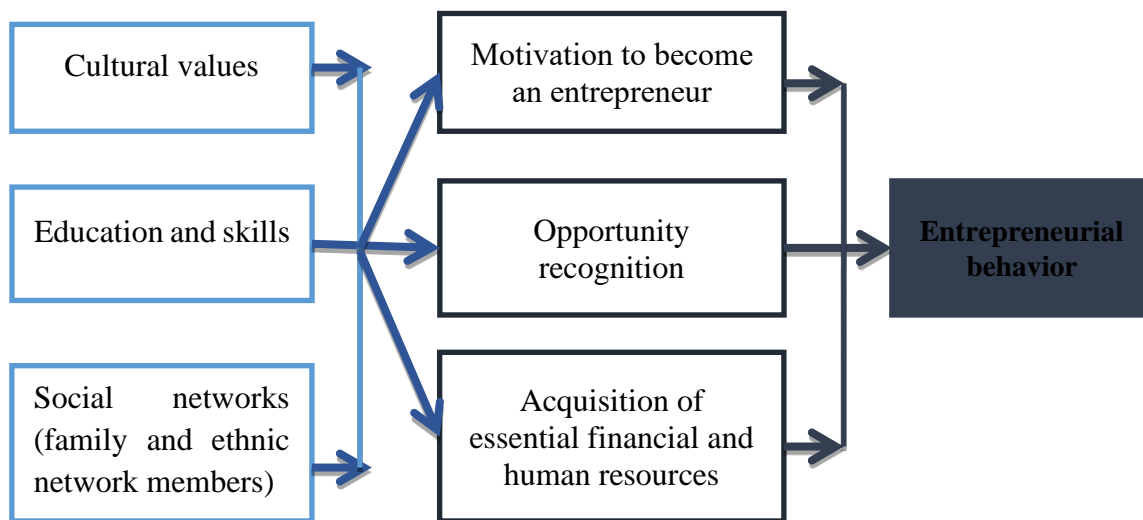


Figure 6. Individual factors affecting entrepreneurship<sup>5</sup>

According to the model, entrepreneurial initiative is determined by the cultural values of the individual, by the education and skills possessed and by characteristics and quality of the networking to which it is connected. All the elements listed above will determine the individual's motivation for entrepreneurship, will create conditions for recognition of business opportunities and facilitate the identification of access to the resources needed for entrepreneurial activity.

The aspect discussed frequently in the context of the analysis of the impact factors on the entrepreneurial initiative is the motivation of individuals. Depending on how individuals are attracted to entrepreneurial activity, factors that impact on entrepreneurial initiative can be divided into two categories: “push” and “pull” factors. Push factors focus on entry into self-employment as a last resort, pull factors emphasize the positive aspects of self-employment, which are often associated with economic independence and job satisfaction.

According to the figure 6, another key factor in the entrepreneurial process is opportunity recognition, the process of identifying a potential opening for a new venture. There are three characteristics associated with opportunity recognition: profitability, newness, and perceived desirability or moral acceptability of the opportunity. The third stage in the model focuses on the entrepreneur's acquisition of essential resources. Lack of start-up capital contributed to the high failure rates and served as an enduring barrier to the business activity.

### **The push - pull factors of entrepreneurship**

The push-pull theory of entrepreneurship shares some semblance with the push-pull model of human migration. The push theory suggest that negative factors such as dissatisfaction, difficulty of finding employment, difficult economic conditions, social recognition, or inflexible work schedule moves individuals into self-employment (Segal et al., 2005). On the other hand, the pull theory refers to attractions that move individuals

<sup>5</sup>Julio C. Canedo et al. Individual factors affecting entrepreneurship in Hispanics. *Journal of Managerial Psychology* · December 2014.



into self-employment or entrepreneurship by seeking independence, wealth, and self-fulfillment (Gilad & Levine, 1986). Pull factors have been found to impact on entrepreneurial motivation.

### Education –pull factor of youth entrepreneurship

An important role in stimulating young people's motivation for entrepreneurial activity is given to education. According to Maina (2011) 'entrepreneurs discover entrepreneurship opportunities depending on the information they already have'. In such conditions, the impact of the entrepreneurship education to youth entrepreneurial intention depends on the educational content.

Entrepreneurship education is an important method encouraging entrepreneurship because education: 1. gives a feeling of independence and self-confidence to individuals; 2. enables the recognition of alternative career options; 3. broadens the individuals' horizons by enabling them to better perceive the opportunities, and 4. provides the knowledge that individuals will use in developing new business opportunities.

According to Sánchez, what can change the entrepreneurship intentions of students during education programs is not what they learn about entrepreneurship itself, but rather what they learn about themselves and their own capabilities (Sánchez, 2011). In the same context, Souitaris et al. (2007), referring to the impact of education, mentions that inspiration triggered by an entrepreneurship education programme is one of the major benefits of entrepreneurship education.

In order to provide a comprehensive approach to the impact of education on entrepreneurial intent, Liñán (2004) integrated the two theories of Ajzen's the Planned Behaviour Theory and Shapero and Sokol's Theory of the Entrepreneurial Event into an entrepreneurial intention model by adding the additional element of entrepreneurial knowledge acquired through education (see Figure 7).

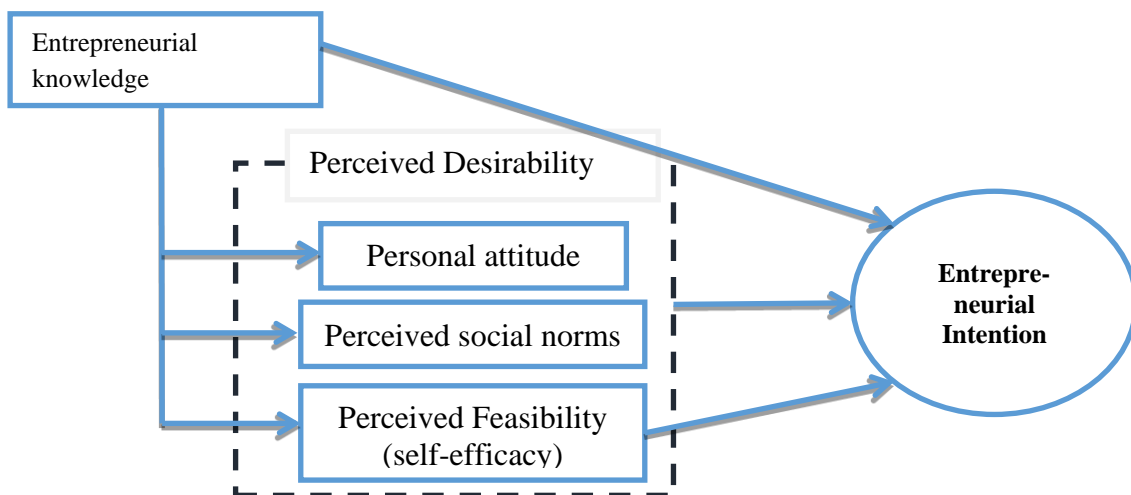


Figure 7. Linen's Entrepreneurial Intention Model<sup>6</sup>

<sup>6</sup>Hala W. Hattab, Impact of Entrepreneurship Education on Entrepreneurial Intentions of University Students in Egypt, The Journal of Entrepreneurship, 23, 1 (2014).

The integration of the two theories results in combining personal attitude and perceived social norms under perceived desirability, while perceived feasibility is represented by self-efficacy. Finally, all these elements are influenced by the knowledge and attitudes that are passed on to young people through education. Which means that education plays a special role in the process of stimulating youth entrepreneurial intentions.

## **CONCLUSION**

Entrepreneurial intention is a topic widely discussed by researchers, with indicators referring to entrepreneurial intentions being given a special place in the national, regional and world reports on entrepreneurship issues. Statistics show that entrepreneurial intention decreases as countries increase their level of development, as the country's population gives priority to employment in the detour of entrepreneurship. At the same time, the dynamic analysis of data regarding the entrepreneurial initiative for the same country reveals a decrease in the entrepreneurial intent of the population.

The decrease in the intensity of the entrepreneurial initiative has triggered multiple theoretical models that aim to explain the state of the entrepreneurial initiation of the population. Theoretical models refer both to the analysis of the impact of the entrepreneurial ecosystem quality on entrepreneurial initiative and on the behavioral analysis of individuals - the behavioral attitudes of the individual having a major impact on entrepreneurial intent.

Benchmarking against the entrepreneurial initiative of various age groups of the population show that the highest level of entrepreneurial intention are characteristic to the group 25-34 years. This is explained both by the entrepreneurship approach as a solution to unemployment, which is more common among young people, and by the fact that young people are confident that entrepreneurship will enable them in a shorter time to get enough income for a comfortable life.

An important factor that can stimulate the entrepreneurial intentions of young people is education, which should contain not only knowledge about entrepreneurial processes but also be a source of inspiration for young people.

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