

# DEVELOPMENT OF ENTREPRENEURIAL ATTITUDES AND ENTREPRENEURIAL ACTIVITY OF YOUTHS IN THE CZECH REPUBLIC

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## **Abstract**

The substantial increase of youth unemployment constitutes a major challenge for policy makers not only in the Czech Republic, but also in the most countries of the European Union. Youth entrepreneurship and self-employment is one of possible ways to decrease unemployment rates. Therefore, it is of a significant interest to explore how entrepreneurial attitudes of the youth have developed in the past decade and how these attitudes relate to actual entrepreneurial activity. Our analysis is based on the data from Global Entrepreneurship Monitor project that were collected in the Czech Republic in years 2006, 2011 and 2013. A representative sample of adult population between 18 and 64 years of age answered questions mapping their entrepreneurial attitudes and entrepreneurial activity. Results show some improvements in the area of entrepreneurial attitudes. Compared with 2006, young people were more entrepreneurially active in 2013. However, the practical absence of nascent entrepreneurship among the young and unemployed in 2013 is disturbing. We suggest a change in primary and early secondary education, which should be more focused on the development entrepreneurial attitudes and skills.

**Key words:** entrepreneurial activity, entrepreneurship attitudes, youth unemployment, Czech Republic, entrepreneurship beliefs

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## **Introduction**

Economic development in the last decade has been unstable. Till 2008, the Czech economy grew rapidly and the economic growth has been the fastest in several decades. Then the global crisis came and the economy dropped substantially in 2009. In 2010 and 2011 we experienced

slow growth followed by the second period of GDP decline in 2012 and 2013. During these years, the level of youth unemployment in Europe goes steadily up in most countries. With exceptions like Germany, Austria or Netherlands, in most countries the level of youth unemployment attacks its long-term maximum. In Spain and Greece, the level of youth unemployment (age 18-24) is terrifying 55 % and 59 % (Eurostat, 2014).

Youth unemployment problems have specific facets in individual countries. In the Czech Republic and Slovakia, there is very high unemployment among the youth with low education (ISCED 0-2), which is more than 40 % in the Czech Republic and even more than 60 % in Slovakia. The unemployment of young people with higher education is substantially lower. In other countries like Greece, unemployment of young people with different levels of education (ISCED 0-6) stays comparable regardless education level achieved (Eurostat, data Jan 2013).

Substantial increase of youth unemployment constitutes a global problem with country specific situations and becomes one of major challenges for policy makers. Youth entrepreneurship and self-employment is one of possible ways to decrease unemployment (Thurik et al., 2008). It is therefore important to inquire, how entrepreneurial attitudes of the youth have developed in the past decade, and how they relate to actual entrepreneurial activity. Further interest lies in how unemployed and non-unemployed youths differ in their approach to entrepreneurship.

## **1 Entry into entrepreneurship**

Entry into entrepreneurship is influenced by many factors that can be grouped into several areas. The first area is *human capital* that includes mainly startup experience and industry experience (Davidsson & Gordon, 2012) and acquired (entrepreneurship related) skills (Unger, Rauch, Frese & Rosenbusch, 2011). The second area incorporates various aspects of *social capital*, mainly having self-employed parents (e.g., Mungai & Velamuri, 2011) and knowing personally successful startups (Lukeš, Zouhar, Jakl & Očko, 2013). The third area contains *financial capital*. Especially money invested in a new entrepreneurial activity has been found to be a strong predictor of startup, stronger than e.g. general wealth of an individual (Townsend, Busenitz & Arthurs, 2010). State financial support for unemployed can help young people to launch a business (Caliendo & Kunn, 2011).

The fourth area can be labeled as *cultural capital* and includes entrepreneurship-related values, motives, beliefs and attitudes. Previous research found (entrepreneurial) self-

efficacy, need for achievement, locus of control, risk taking and not having fear of failure as important psychological factors influencing entry into entrepreneurship (e.g., Lukeš & Stephan, 2012; Lukeš et al., 2013; Townsend, Busenitz & Arthurs, 2010).

As entrepreneurship-related beliefs and attitudes play a big role in entrepreneurship entry (Lukeš et al., 2013), several research studies inquired how these beliefs and attitudes develop. Most studies find big influence of self-employed parents that serve as role models, especially in case of successful self-employment (e.g., Mungai & Velamuri, 2011). Peers at secondary school were in Falck, Heblich and Luedemann (2012) study found as even more important factor for entrepreneurship than self-employed parents. Other important factors include also community specifics (Williams, Williams, 2012; Fairchild, 2010) and culture (Stephan & Uhlaner, 2010). Institutional environment also plays a role, e.g., economic freedom (Gohmann, 2012).

Going back to an individual's startup decision, it is also influenced by opportunity perception, whether one perceives good opportunities for starting a business. Finally, each individual has specific opportunity costs. Attractive job opportunities lower the likelihood of entrepreneurship entry and push factors like unemployment should increase entrepreneurship efforts (Lawrence, 1997; Thurik et al., 2008).

## 2 Sample and methods

The data for this study were gathered in the frame of Global Entrepreneurship Monitor project that was conducted in the Czech Republic in 2006 ( $N = 2001$ , aged 18+), 2011 ( $N = 2005$ , aged 18-64) and 2013 ( $N = 5009$ , aged 18-64). We acquired data from a representative sample of  $N = 1,000$  young adults between 18 and 24 years of age,  $N = 2,124$  young adults between 25 and 34 years of age and  $N = 5,677$  older adults (35-64). The participants were contacted by mobile phone, mobile numbers were randomly generated.

If an individual picked up the phone, he/she was asked to answer questions related to (i) entrepreneurial attitudes and activities, and (ii) basic socio-demographic characteristics. The questions related to entrepreneurial attitudes and activities analyzed in the present study are given in the first column of Table 1. In our statistical analyses, all responses were coded as 1 = yes, 0 = no; the names of the resulting variables, used later in the text, are shown in Table 1 in italics.

The statistical analysis is carried out in two stages. In the first stage, we identify and comment on the main overall trends in entrepreneurial attitudes and activities in different

subgroups of the population by age and employment status. The results motivate the second stage, where we focus solely on young people and use multivariate regression in order to study in more detail the trends and differences in two selected variables: opportunity perception and nascent entrepreneurship. The goal here is (i) to check whether the results from the first stage still apply after controlling for the variation in other entrepreneurship-related and socio-demographic characteristics, and (ii) to quantify the effect of these characteristics.

The socio-demographic characteristics used in the regressions include age (in years), gender (coded as a 0/1 female indicator), education (coded as an indicator of post-secondary education), employment status (unemployment indicator), the size of respondent's municipality of residence (classified into 4 bands by total population), and the total income of respondent's household (7 categories). As both dependent variables, opportunity perception and nascent entrepreneurship, are dichotomous, we used the binary probit regression model.

**Tab. 1: Entrepreneurial attitudes, beliefs and activity in 2006, 2011 and 2013**

	35–64			Not unempl. 18–34			Unemployed 18–34		
	2006	2011	2013	2006	2011	2013	2006	2011	2013
Sample size ( <i>N</i> )	1122	1283	3272	478	692	1616	28	30	118
<i>Knows an entrepreneur</i> : Do you know someone personally who started a business in the past 2 years?	31%	21%	19%	46%	31%	32%	40%	36%	14%
<i>Opportunity perception</i> : Will there be good opportunities for starting a business in your area in the next six months?	24%	23%	17%	37%	32%	36%	43%	18%	19%
<i>Entrepreneurial self-efficacy</i> : Do you have the knowledge, skill and experience required to start a new business?	40%	41%	41%	48%	39%	46%	41%	60%	35%
<i>Fear of failure</i> : Would fear of failure prevent you from starting a business?	34%	40%	44%	31%	43%	43%	40%	42%	46%
<i>Status of entrepreneurs</i> : Those successful at starting a new business have a high level of status and respect.	43%	43%	44%	46%	53%	54%	41%	56%	59%
<i>Entrepreneurial intentions</i> : Are you expecting to start a new business within the next three years?	8%	10%	9%	20%	21%	27%	39%	41%	34%
<i>Nascent entrepreneurship</i> : Actively involved in start-up effort, owner, no wages yet.	6%	5%	4%	6%	6%	8%	23%	12%	2%

Source: GEM, own data.

### 3 Results

Table 1 illustrates development of different entrepreneurial attitudes, beliefs and nascent entrepreneurial activity in the years 2006, 2011 and 2013. The results are presented separately

for older adults (35–64), young people 18–34 who are not unemployed and for unemployed youth (again 18–34).

In relation to social capital, i.e. whether a person knows somebody who launched a new business, we see that this social capital decreased for all groups, but the most radically for young unemployed. Similarly, opportunity perception dropped the most for the young unemployed. On the other, non-unemployed youths perceived opportunities to a similar extent in all the years in which data were gathered. Regarding entrepreneurial self-efficacy, it remained the same for older adults and has a slight U-shape for non-unemployed youths. For young unemployed it has inverted U-shape, i.e. dropped in 2013.

Fear of failure increased in years in a similar fashion for all groups. Image of entrepreneurs in society improved in young generation only, regardless unemployment status. It is positive that young generation gives entrepreneurs a higher status than 7 years ago. Entrepreneurial intentions remained low for older adults, increased for non-unemployed youths, but decreased for young unemployed. Finally, the most striking finding is the radical drop in nascent entrepreneurship between young unemployed, it fell down from 23% in 2006 to mere 2 % in 2013. These rough data suggest that whereas entrepreneurship was a frequent way out of unemployment for young people in 2006, this choice is not made anymore.

Regression estimates for the 18–34 age group from the second-stage analysis are given in Table 2. Results show that whereas the unemployed did not perceive more opportunities than the non-unemployed in 2006, they were more engaged in nascent entrepreneurship activity. In 2013, non-unemployed young people were more inclined to nascent entrepreneurship than in the years before. A huge change took place for young unemployed who in 2013 perceived less opportunities and significantly reduced entrepreneurial activity.

Opportunities were more perceived by younger people, however this is not followed by action, i.e., age is not significant for nascent entrepreneurship. We must emphasize that we are speaking about age group 18–34 only. Women perceived less opportunities and started significantly less entrepreneurial activities.

Individuals with post-secondary education perceived substantially more opportunities, but were engaged less in nascent entrepreneurship. The explanation lies in opportunity costs concept as these people have higher chances to get a good job on the labor market. Similarly, people from larger cities perceived more opportunities, but did not differ from others in nascent entrepreneurship. Also, people from richer households were more active in nascent entrepreneurship.

**Tab. 2: Factors influencing opportunity perception and nascent entrepreneurship**

	Opportunity perception		Nascent entrepreneurship	
Unemployment	0.346	(0.205)	1.077***	(0.000)
Year				
– 2011	–0.0477	(0.634)	0.105	(0.467)
– 2013	–0.0631	(0.470)	0.234*	(0.061)
Unemployment × Year				
– 2011	–0.537	(0.232)	–0.762	(0.109)
– 2013	–0.542*	(0.090)	–1.320***	(0.001)
Age	–0.026***	(0.000)	0.0140	(0.138)
Female	–0.121*	(0.054)	–0.359***	(0.000)
Post-secondary education	0.377***	(0.000)	–0.183*	(0.077)
Household income <sup>a</sup>		(0.463)	**	(0.023)
Municipality size <sup>a</sup>	***	(0.000)		(0.307)
Entrepreneurial self-efficacy	0.203***	(0.001)	0.660***	(0.000)
Fear of failure	–0.179***	(0.004)	–0.334***	(0.000)
Status of entrepreneurs	0.150**	(0.014)	0.0625	(0.464)
Knows an entrepreneur	0.300***	(0.000)	0.582***	(0.000)
Constant	–0.433	(0.117)	–2.524***	(0.000)
<i>N</i> (young people 18-34)	1994		2325	
McFadden's R <sup>2</sup>	0.113		0.164	

Source: GEM, own data. Binary probit regression, estimated by ML (maximum likelihood) in Stata 13. Table shows standard regression coefficients and two-tailed p-values in parentheses, based on heteroskedasticity-robust standard errors (\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ ). <sup>a</sup> For factor variables Municipality size and Household income, the p-value and significance stars show joint significance of all category indicators (dummies), based on a Wald test; the coefficients for individual categories are not reported.

The last part of results deals with psychosocial factors, namely entrepreneurial self-efficacy, fear of failure, personal familiarity with a startup founder and perception of entrepreneurs' image. It is obvious that these factors play the key role in explaining opportunity perception and, with the exception of perception of entrepreneurs' image, also involvement in nascent entrepreneurship.

## Conclusion

The study results show that entrepreneurial attitudes and beliefs influence both opportunity perception and nascent entrepreneurship activity. It is a warning sign that these psychosocial factors relevant for entrepreneurship dropped for young unemployed significantly. Similarly, entrepreneurial intentions and nascent entrepreneurship of the youth grew, but dropped significantly for young unemployed. The basic idea of dual labor market (e.g., Belan, Carré & Gregoir, 2010) may be transferred also to dual (non-)entrepreneurship culture. We can hypothesize that whereas young generation overall is more entrepreneurial due to better ICT knowledge, language skills and foreign experience, there is a disadvantaged group of young people that does not have a job and does not try to become self-sufficient. Specifically for this group, there exists a high risk of long-life unemployment with all the costs for state involved.

Recommendations involve the support of entrepreneurial attitudes and beliefs at elementary and secondary schools. Specific actions consist of the involvement of role models, carrying out entrepreneurial projects, developing pupils' self-responsibility and offering entrepreneurship, openness and creativity training for teachers. Other recommendations focus on young and unemployed. First, financial support for the unemployed, only in small amounts but easily accessible, can be utilized (cf. Caliendo & Kunn, 2011). Second, they should be also trained and then consulted in preparation of viable business models – we can assume that a large proportion of young unemployed lack the know-how necessary for a successful startup.

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