

# YOUTH ENTREPRENEURSHIP IN SLOVAKIA: A GEM BASED PERSPECTIVE

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## **Abstract**

*The aim of this paper is to analyze the entrepreneurial potential and qualitative as well as quantitative aspects of youth entrepreneurship in Slovakia. In order to do so, we employ the Global Entrepreneurship Monitor data from year 2013 and analyze the selected main indicators of entrepreneurial attitudes and activity among youth (aged 18 to 24) and young adults (25 to 34 years). Our results shed light on actual state of youth entrepreneurship in Slovakia. While perception of societal attitudes towards entrepreneurship was found to be similar between the young and the remaining adults, young individuals indicate higher overall entrepreneurial potential. However, this potential has different composition between youth and young adults, and it is, together with entrepreneurial intentions, converted to actual involvement in entrepreneurial activity in different extent. While activity of young adults doubles the figures of remaining adult population, youth involvement is only slightly higher than in mainstream adult group. Despite this difference, none of the young groups exhibits problems with their inclusivity into entrepreneurial activity in Slovakia.*

## **Introduction**

The phenomenon of entrepreneurship on macro-level (i.e. the level of national economies) is perceived mostly through its broad societal and economic importance. Similar perspective is also applied when talking about entrepreneurship in relation to young people. Entrepreneurship is perceived as one of the potential solutions to youth unemployment problem, which has been in the last few years particularly urgent throughout entire Europe as well as in Slovakia. Joining the entrepreneurial path seems to offer solution not only thanks to self-employment of young entrepreneurs, but also thanks to potential for further job creation by their businesses. Moreover, in case of young people the entrepreneurial propensity has another important dimension. This age group is usually at the beginning or in the very early stages of their involvement in economically active age. If the individuals from at this stage decide for entrepreneurship as their career path, they will become economically self-sufficient and, from the employment perspective, they will not be searching for jobs, but instead they will create those jobs for themselves, plus there is a perspective that they will be creating jobs also for other people. Such decision in early career stages creates a good (however, not

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obvious) precondition that these individuals will remain economically self-sufficient throughout their entire economically active age, thus contributing not only to quantity, but also to quality of entrepreneurial activity in an economy. Such importance of youth entrepreneurship imposes the main research question of this paper, which is to find out what is the current entrepreneurial potential and qualitative as well as quantitative side of youth entrepreneurship in Slovakia.

## **1 Theory and literature review**

Youth entrepreneurship is an important phenomenon also in the context of current trends in economic environment. The immense development of their innovation character that brings the trends such as constant dynamics and instability, rapid changes or increased cognitive complexity (IAC, 2006) leads to changing nature of the labor, as well as to need for application of enterprising skills and attributes not only in for profit businesses, but also in the role of employee or in many other different social roles. Forming of such skills, especially as a part of entrepreneurship education on all levels of the educational system, is therefore not only the way towards development of independent, profit-oriented entrepreneurship as it is perceived traditionally. On contrary, its role is to support creativity, innovativeness or ability to identify opportunities and bring ideas into life, thus equipping young people with “enterprising mindset” that can be utilized in many different (not only for-profit business) activities. Last but not least, the youth entrepreneurship issue is related also to questions of life quality and subjective life satisfaction. As has been proved by the Global Entrepreneurship Monitor (hereinafter referred to only as “GEM”) in 2013, entrepreneurs are generally more satisfied with their lives compared to non-entrepreneurs (Pilkova et al., 2014). Thus, besides the economic effects, the improvement of life quality and subjective life satisfaction can be considered as another advantage of involvement in entrepreneurship. In fact, increase in share of young individuals that decide to pursue the entrepreneurial career means increased precondition for improved the qualitative standard of living at the level of national economy as such.

On the other hand, young people face certain natural barriers to enter the entrepreneurial activity (greater than in case of other groups of adult population) resulting from market failures (Hofer and Delaney, 2010). These barriers can be classified as limitations in the fields of financial, human and social capital (EMN, 2012). However, according to inclusivity principle, entrepreneurship should be available to anyone, because personal qualities and conditions required for entrepreneurship should not be exclusively reserved for selected groups of population and blocked for the others. The aim of inclusive entrepreneurship development among youth is thus to unleash their creative potential and exploit it through entrepreneurship not only for their own benefit, but also for development of entire society and facing its greatest socio-economic challenges. To enable this, however, it is necessary to understand the state of youth entrepreneurship, entrepreneurial environment in which it is supposed to evolve, and existing best practices. Based on such knowledge, adequate initiatives on levels of youth entrepreneurship development strategies and programs should be created and introduced into action.

Due to the above mentioned arguments, youth entrepreneurship enjoys vast attention in entrepreneurship research. Just for illustration, Google Scholar search showed more than 148 000 records after entering the “youth entrepreneurship” keyword into the search engine. Also, search in available licensed full-text databases on scienta.sk portal with the same keywords resulted into more than 196 000 search results (both searches were executed on 19th August 2014). Even after considering possible repetitions in the search results, these numbers are truly remarkable.

When dealing with youth entrepreneurship, the very first question that needs to be clarified is the definition of “youth” in relation to entrepreneurship. There is no universal definition of “youth” neither in general nor in the specific context of entrepreneurship. For example, United Nations for its statistics purposes understands youth as individuals in the age of 15 to 24, but at the same time it accepts the existence of another definitions used by other countries of entities (UN, 2014). One of such is the definition used in European Union, where Eurostat considers as “youth: individuals in the age of 15 to 29 years (EC, 2009).

Especially in relation to entrepreneurship, a very interesting approach to define and classify youth entrepreneurship is the qualitative perspective through so called “transitional categorization“ based on structural differences between entrepreneurial activities of young people in different age (Chigunta, 2002). This categorization qualitatively (as well as through the age perspective) recognizes three main phases of youth entrepreneurship. At the same time, it stresses that the transitional process does not have to be linear, and that the age categorization is not strict either, because the transfer between phases may differ in the context of particular economies or industries. The first phase is labeled as “pre-entrepreneurship” (in the age of 15 to 19 years) and represents a phase of forming or some trial period. Young people usually find themselves in this phase during the transfer from “family nest” or educational process to the position of economically active individuals. The second phase is so called “budding entrepreneurship” (age of 20 to 25 years), i.e. a growth phase in which young individuals can already possess certain experience, skills or capital, enabling them to run their own business activities. These can exist in three alternative ways: remaining in marginal activities, discontinuation of business activity or managing a successful business. Finally, the third phase is labeled as “emergent entrepreneurship” (age of 26 to 29 years). It is the main phase where young entrepreneurs are, thanks to experience acquired (not only) in entrepreneurship, more mature than younger individuals, thus increasing the chance that they can successfully manage a vital business activity. This categorization introduces an interesting qualitative perspective on extrinsic and intrinsic definition of youth entrepreneurship, thus being a good starting point for its analysis in specific contexts in the field of research, as well as in the field of policy making.

However, for the purpose of our analysis in this paper (that is based on Global Entrepreneurship Monitor individual level data) it is necessary to employ a harmonized definition based on the clearly defined age criteria. For this reason we will incline to the perspective applied in the GEM project, where the issue of youth entrepreneurship includes individuals in the age from 18 to 34 years (Kew et al., 2013). Moreover, due to certain heterogeneity in such broad category, we will further distinct between the categories of youth (18 to 24 years old) and young adults (25 to 34 years old), which also corresponds with the

perspective applied in the GEM project (Pilkova et al., 2014). This distinction reflects the specifics of these two age groups and their position in the overall context of our country. Youth in the age between 18 to 24 years is usually positioned at the doorstep of economic activity, where some individuals still remain in the process of preparation for their occupational career, while the others are fully involved among either workforce or self-employed, or they attempt to include into economically active life. On contrary, within the age group of 25 to 34 years the preparation to occupation (e.g. the educational process) has usually been completed and an active participation of its members in the economic activity within the society is anticipated.

## **2 Research data and method**

### **2.1 Sample**

Our analysis is based on Global Entrepreneurship Monitor (GEM) data. GEM is the world's largest academic study on entrepreneurship, aimed at investigation on attitudes, aspiration and activity of individuals in relation to entrepreneurship, as well as at evaluating entrepreneurial environment (Amoros and Bosma, 2014). GEM in Slovakia has been introduced in 2010 and since then it has been annually performed by our research team at Comenius University in Bratislava, Faculty of Management (Pilkova et al., 2012). Individual level data are derived from a representative sample surveyed in adult population survey that is regularly conducted in each participating country. Our data have been obtained from survey on a sample of 2007 respondents conducted in 2013 in Slovakia. For the purpose of our analysis, the overall adult population sample (aged 18-64) has been divided into three subsamples: youth (aged 18-24, sample size 294 respondents), young adults (aged 25-34, sample size 485 respondents) and remaining adult population (35-64 years old, sample size 1228 respondents).

### **2.2 Variables**

In order to analyze the entrepreneurial potential, qualitative and quantitative aspects of youth entrepreneurship in Slovakia we have used several GEM-defined individual-level indicators. First group of indicators is related to entrepreneurial potential, indicating the percentage of respondents within the analyzed representative subsample, reporting the perception of particular societal attitude towards entrepreneurship, self-perception regarding entrepreneurship-relevant attributes, and perception of business opportunities. Second group of indicators relates to involvement of individuals within the analyzed subsamples in different phases of entrepreneurship process, and to motives for such involvement. For definitions of particular indicators please refer to Appendix 1.

### **2.3 Analysis and test method**

Our analyses of quantitative and qualitative aspects of youth entrepreneurship was based on descriptive statistics and comparison of indicators between the analyzed subsamples,

i.e. youth, young adults and remaining adult population. The data are presented in frequency tables in the next chapter of this paper.

### 3 Results and discussion

The first part of our analysis was focused on entrepreneurial potential and its components from among perception of opportunities, perception of societal attitudes and self-assessment in relation to entrepreneurship. The results of this part of our analysis are presented in Table 1 below.

Table 1: Entrepreneurial potential and its components among the young in Slovakia, 2013

<b>Indicator</b>	<b>Youth</b>	<b>Young adults</b>	<b>Remaining adult pop.</b>
Perceived opportunities	27,9%	21,9%	11,1%
Societal attitudes perception			
Egalitarianism	75,9%	74,4%	69,5%
Entrepreneurship as a good career choice	52,7%	48,7%	48,6%
Social status of entrepreneurs	62,2%	59,3%	57,3%
Media attention to entrepreneurs	51,9%	53,1%	51,1%
Self-assessment			
Perceived capabilities	43,6%	58,0%	50,0%
Fear of failure	35,9%	42,7%	50,4%
Overall entrepreneurial potential			
Potential (opportunities, capabilities, fear)	10,0%	10,8%	3,8%

Source: GEM 2013, processed by authors

Perception of good opportunities to start new businesses is an important prerequisite of individual involvement in entrepreneurial activities, thus being one of the main component of the entrepreneurial potential. As can be observed in our results (Table 1), the highest rate of opportunity perception in 2013 was among youth, where each fourth individual claimed that there will be good opportunities to start a new business in the next six months in the area where he/she lives. Young adults were a bit more skeptical about prospective business opportunities, but also in this age group more than two out of ten individuals perceived good opportunities to start a new business. Compared to these two young age groups, the remaining adult population (i.e. 35 to 64 years old) was characterized by considerably lower level of opportunity perception, which was indicated only in 11.1% of individuals. Therefore we can assume that young individuals seem to be more optimistic when perceiving the business opportunities, but they also might possess better ability to recognize such opportunities in their environments.

The perception of societal attitudes toward entrepreneurship among the analyzed age groups seems to be, in general, very common and with only minor differences that show no

clear pattern distinguishing the particular age groups. Young individuals and the remaining adult population similarly perceive the level of egalitarianism within the society (i.e. the preference of same standard of living for everyone), relatively low perception of social status and respect that successful entrepreneurs enjoy within the society, as well as in assessment of general consideration of entrepreneurship as a good career choice or perceived media attention devoted to successful new entrepreneurs. Summing up, we can conclude that young people (i.e. youth and young adults) as well as the remaining adult population perceive the societal attitudes towards entrepreneurship in Slovakia quite similarly. Due to this almost identical composition we can also assume that societal attitudes perception will not be a reason for potential differences in individual attitudes of entrepreneurial tendencies.

Another entrepreneurial potential key components are the attributes of individual self-assessment in relation to entrepreneurship. First, perceived capabilities refer to possession skills, knowledge and experience required to start a new business. According to our results presented in Table 1 above, young adults show higher entrepreneurial self-confidence than their youth counterparts, when 58.0% of individuals aged 25 to 34 (compared to only 43.6% of youth individuals) believes to have entrepreneurial capabilities. The remaining adult population is positioned between the two young groups. The reasons for higher self-confidence among young adults may possibly lie in already accomplished education (that sometimes contains also some entrepreneurial training) as well as probably already acquired practical experience from business world or particular professional domain. Youth, often still before accomplishment of their education and with less practical and professional experience, probably did not have sufficient chance to build their entrepreneurial self-confidence on relevant background. These findings imply the importance to increased attention paid to educational systems (not only concerning entrepreneurial education) as well as to the overall support ecosystem that should develop or externally provide and complement the missing entrepreneurial skills. On the other hand, the fact that each fourth individual from among youth indicates entrepreneurial self-confidence still remains a promising prerequisite for their involvement in entrepreneurial activities. Second, the other self-assessment component covered in our analysis was the fear of failure that would prevent individuals from starting a business. In this case the situation between youth and young adults is exactly the opposite. While in case of youth only slightly more than one third of individuals (35.9%) indicates fear of failure as a barrier to start a business, in case of young adults this figure is higher (42,7%). We can conclude that young adults, often standing in front of their career choice in a situation when they must consider to secure sustainable income, tend to have higher tendency to have fear of failure resulting from risk of uncertain related to running a business. Finally, the remaining adult population shows even higher fear of failure, since it would have prevented even a half of individuals from getting involved in business activities.

The last indicator that aggregates individual attributes related to entrepreneurship is the overall entrepreneurial potential. An individual possesses this potential in case he/she simultaneously perceives good business opportunities, believes to have necessary entrepreneurial skills, knowledge and experience, and the fear of failure would not prevent him/her from starting a business. In case of this indicator an almost same situation can be

observed among youth and young adults (Table 1), when in both groups every tenth individual has an overall entrepreneurial potential. However, a closer view reveals a different internal structure of individual attributes (namely opportunity perception and self-confidence), thus indicating different internal composition of the observed overall potential. While in case of young adults the slightly more skeptical opportunity perception and higher fear of failure are combined with stronger equipment with required entrepreneurial capabilities, the situation among youth is different. In this group, the weaker self-confidence is compensated by lacking fear of failure and optimism about good business opportunities. The overall entrepreneurial potential, despite being almost equal in its quantity, has a different nature in these groups. In our opinion, youth can be characterized by being more ambitious and determined, and less restricted by perceived limitations, while young adults, on contrary, are more sophisticated, but at the same time already “stigmatized” by previous experience having faced the reality.

The second part of our analysis was focused on entrepreneurial activity. The results for main entrepreneurial activity indicators for youth, young adults and remaining adult population are presented in Table 2 below.

Table 2: Entrepreneurial activity of the young in Slovakia, 2013

<b>Indicator</b>	<b>Youth</b>	<b>Young adults</b>	<b>Remaining adult pop.</b>
Entrepreneurial intention	32,0%	19,5%	11,4%
Early-stage entrepreneurial activity (TEA)	8,6%	14,8%	7,7%
out of that opportunity based TEA	65,3%	59,8%	56,3%
out of that necessity based TEA	34,7%	38,8%	42,7%
Established entrepreneurial activity	0,4%	4,5%	6,9%
Discontinuation rate	4,1%	8,6%	4,6%

Source: GEM 2013, processed by authors

The entrepreneurial intention is from the entrepreneurship process perspective a phase that immediately precedes the actual entrepreneurial activity. According to entrepreneurship theory as well as empirical results, it an important predictor of individual involvement in entrepreneurial path. In the GEM project this intention is analyzed among non-entrepreneurs, i.e. individuals who are not involved in any stage of owning and managing a business. As can be seen from GEM results presented in Table 2, almost one third of non-entrepreneurs among youth in 2013 declared an intention to start a business in the close future (in the next three years). Within the group of non-enterprising young adults the intention was reported by each fifth individual. Finally, the intention rate among remaining adult population (35 to 64 years old) was only 11.4%. Therefore, we can conclude that the young considerably declare and expect running their own business as a direction of their economic activity, while this situation is particularly remarkable among the non-enterprising youth.

Rather different are the findings regarding the early-stage entrepreneurial activity (involvement in active setting up of a business or owning and managing business younger than 3.5 years), one of the key GEM indicators (Pilkova et al., 2014) among the young

individuals. As can be seen from 2013 results, while TEA rate among youth was only 8.6%, as many as 14.8% of young adult individuals reported involvement in early-stage entrepreneurial activity. At the same time, both groups indicate greater involvement in early-stage activity compared to the remaining adult population, where TEA rate in 2013 was only 7.7%. Interesting are the findings based on contrasting the early-stage activity with the entrepreneurial intention in the two groups of the young. While in case of youth we can see high intention rate accompanied with low actual activity, on contrary, the lower intention among young adults is converged into considerably higher entrepreneurial activity. The observed disproportion among youth could be explained by postponing the intended beginning of business activity to future (probably to the start of economically active phase after completing the occupational preparation), but perhaps also by limited feasibility of declared expectations about future involvement in business activity when confronted with later reality and need to secure income, thus preferring other, less risky ways of earning for living (especially as employees). On contrary, the higher conversion of entrepreneurial intentions into actual start of entrepreneurial activity in case of young adults indicates higher rate of executing their entrepreneurial expectations. This can result either from more realistic expectations, as well as from lower postponing of the entrepreneurial intention to future and its higher immediate execution.

Regarding the reasons for getting involved in business, the large variety of existing motives may be according to GEM methodology (Pilkova et al., 2014) classified into two main categories - opportunity-driven entrepreneurship (exploiting the entrepreneurial opportunity or chance to increase personal income) and necessity-driven entrepreneurship (necessity to secure or maintain income). Irrespective the future nature of each particular business, the first case can be generally considered positive, while the latter case usually follow deliberate push into business activity as the only feasible way of earning for living. Even though our results for 2013 indicate prevailing share of opportunity-driven entrepreneurship among both youth and young adults (65.3% and 59.8%), the share of individuals pushed into entrepreneurship out of necessity was still unfavourable (it was the case of each third youth entrepreneur and each fourth out of ten young adults involved in early-stage business activity). However, contrasting to remaining adult population where necessity motives account for as much as 42.7% early-stage businesses, both groups of the young still show more positive state from this perspective.

The rate of established entrepreneurial activity, i.e. the share of individuals owning and managing business older than 3.5 years, was naturally higher among the remaining adult population (in 2013 this indicator was 6.9%). While among youth population the stage of established business owners could achieved only 0.4% of individuals, 4.5% of young adults were already able to settle the established businesses. Such disproportion naturally results from age differences between these two groups, but it also partially reflects the different rate of involvement in starting early-stage business activities (that of course precede established businesses).

Finally, the last perspective applied to analysis of entrepreneurial activity through the entrepreneurship process is the evaluation of its discontinuation (Pilkova et al., 2014). It represents the end of individual's involvement in entrepreneurship. In 2013, business discontinuation during the last twelve months was experienced by 4.1% of youth adults. In case of young adults, as many as 8.6% individuals discontinued their businesses in the same period. While the differences observed obviously correspond with the differences in entrepreneurial entry (the discontinuation can occur only after the previous entry into entrepreneurial activity), the discontinuation to early-stage activity ration (i.e. a certain indirect business death rate indicator) is considerably higher among young adults than among youth (58.1% vs. 47.7%). The remaining adult population exhibits similar value of discontinuation to activity ratio than their young adults' counterparts. Thus, the reason of lower discontinuation rate among youth might probably lie not in higher successfulness and viability of their business, but rather in the fact that due to short duration, these businesses had not yet reached the phases of facing the failures leading to their discontinuation.

## **Conclusion**

The main findings on entrepreneurial activity of youth (aged 18 to 24 years) in Slovakia can be, based on the findings presented above, summarized into the following conclusions. First, the youth, despite having only average self-confidence about having skills, knowledge and experience required to start a business, exhibits high levels of overall enterprising potential, mainly thanks to optimistic perception of business opportunities and lacking fear of failure. Also, the perception of societal attitudes towards entrepreneurship is rather positive among youth individuals, corresponding to the remaining adult population. Second, intention to start-up a new business in the close future among the youth is considerably high, since it is declared by one third of non-enterprising youth individuals. Finally, despite high overall entrepreneurial potential as well as intention to start-up, we can't see their real conversion to actual entrepreneurial activity, which rate remains only on average level.

As far as young adults (aged 25 to 34 years) are concerned, the main findings on their entrepreneurial activity can be summarized in the following conclusions. First, young adults exhibit high overall entrepreneurial potential that is based mainly on self-confidence in relation to possession of skills, knowledge and experience required to start a business, and remains high despite more skeptical attitude towards business opportunities and higher fear of failure. Young adults do not differ from remaining adult population in perceptions of societal attitudes towards entrepreneurship. Second, young adults exhibit above average entrepreneurial intentions, since every fifth individual from among young adult population expects to enter the entrepreneurial career path in the next three years. Finally, the above mentioned high overall entrepreneurial potential and above average intentions to start-up are transferred also to above average early-stage entrepreneurial activity of young adults (unlike in case of youth, where such conversion is considerably lower).

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## Appendix 1: Definition of indicators used in the analysis

Indicator	Definition
Perceived opportunities	% YES: Good conditions to start business next 6 months in area I live
Egalitarianism	% YES: People prefer equal standard of living for all
Entrepreneurship as a good career choice	% YES: People consider starting business as good career choice
Social status of entrepreneurs	% YES: People attach high status to successful entrepreneurs
Media attention to entrepreneurs	% YES: In my country there is lots of media attention for entrepreneurship
Perceived capabilities	% YES: Has required knowledge/skills to start business
Fear of failure	% YES: Fear of failure would prevent starting a business
Potential (opportunities, capabilities, fear)	% YES for perceived opportunities and capabilities, and NO for fear of failure

Source: author, based on Global Entrepreneurship Monitor