



Does Education Matter for Entrepreneurship Activities? The Case of Kosovo

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Based on the innovation and technology progress, it is expected that in the near future there will be an increasing trend of jobs that require high qualifications. There is a debate whether education is significantly increasing probabilities of earning higher wage for employees or whether higher education will increase probabilities of entrepreneurship performance. In post-conflict countries, entrepreneurial education does not have a significant impact on entrepreneurship performance, especially in Kosovo due to different factors. First, due to the structure of enterprises, as most of the enterprises are involved on trade activities; second, due to the level of macroeconomic development and, third, due to the lack of involvement of enterprises in EU knowledge and innovative projects, such as Erasmus and Horizon 2020. By using a probit model this paper analyses several factors, such as level of education, gender, marital status and health, for the case of Kosovo. Finally, it confirms empirically that currently the level of education does not seem to play an important role on entrepreneurship performance compared to other factors, such as gender and marital status.

Keywords: entrepreneurship, education, transition, knowledge management, innovation

Introduction

According to Kirzner's (1973) theory, entrepreneurship requires a very special type of knowledge: the kind of knowledge required is that the entrepreneur knows where to look for knowledge. The word that most closely captures this kind of knowledge seems to be alertness. It is true that 'alertness' may also be hired, but someone who hires an employee in order to alert about the possibilities of discovering knowledge has himself displayed knowledge of a still higher order. Entrepreneurial knowledge maybe described as the highest order of knowledge.

Furthermore, Kirzner (1973) added that entrepreneurs are considered to be the most alert persons in society. They can learn from wrong decisions or by not perceiving the best opportunities. He added that, once the profit opportunity is discovered, one can capture the associated profit by innovating, changing and creating. However, being able to act upon profit

opportunities adequately requires additional qualities such as creativeness and leadership (Kirzner, 1973).

In their analysis, Klein and Cook (2005) found that Shultz conceives entrepreneurial ability as a form of human capital. This ability can be increased through education, training experience, health care, etc. In addition, with regard to education, Schultz (1971) pointed out that education is an investment in knowledge and, as a consequence, it increases labour productivity.

The first studies to investigate the economic effects of knowledge investments revealed the positive influence of human capital on growth for individuals, firms and nations (Schultz, 1971). In their seminal works, Becker (1975) and Schultz (1969) stress that human resources are a major production factor and therefore contribute in large proportion to the increase in productivity. Empirical testing of the endogenous growth theory showed that economies with higher percentages of well-educated employees were those that exhibited higher rates of growth (Schultz, 1993).

Modern economic theories differ in three ways compared to the classical, neoclassical and Austrian theories described above. First, individuals do not have to be entrepreneurs if this does not offer them the greatest expected utility, which means they will be based on utility maximisation. The second issue is that, before entering into entrepreneurship, entrepreneurs face the occupational choice as a continuous process. Some economists inspired by these conceptual differences therefore rekindled the idea of a specific entrepreneurial activity and started looking for an indicator of abilities in human capital general education and experience (Calvo & Wellisz, 1980; Lucas, 1978).

In this paper the impact of individual factors on entrepreneurship activities in transition countries such as Kosovo is analysed as a specific environment that experienced long-term political and socio economic challenges, such as unemployment, educational defies, low managerial experience and other crucial factors for entrepreneurship growth.

Literature Review

In his model, Lucas assumed a closed economy with homogenous capital, and a workforce that is homogenous with respect to productivity in paid employment, but heterogeneous regarding managerial ability in entrepreneurship. He took into consideration wage experience and education as factors that affect entrepreneurial abilities. He believes that incentives to become an entrepreneur are the strongest for individuals who have accumulated managerial talent through work experience and education. Regarding outputs or rewards, Lucas pointed out in his model that wages are similar for all workers regardless of their entrepreneurial ability, but, on the con-

trary, rewards for entrepreneurship are based on individual entrepreneurial ability. Thus, greater ability translates into higher outputs. Lucas also introduced into his model the concept of marginal entrepreneur. A marginal entrepreneur is indifferent to becoming an entrepreneur or being an employee. An individual with greater ability than a marginal entrepreneur enters into entrepreneurship, while the others with a lower ability become workers.

The model by Calvo and Wellisz (1980) further develops the Lucas model and introduces technological change, which affects the age and human capital expected from an entrepreneur. According to Calvo and Wellisz (1980), the returns to employment and entrepreneurship given a level of entrepreneurial ability are known *ex-ante*. This assumption was not supported by Card (1999), who in his empirical studies reported that individuals seem to be choosing between the expected returns from either profession choice and not from a given wage or profit equation. Mainly based on Calvo's model, a higher accumulated level on education should increase the probability of an individual engaging in entrepreneurial activity. In the model of Calvo and Wellisz (1980), the individual should possess an ability regarding productivity-enhancing technological information. An individual's output is assumed to grow through time given the stock of knowledge. Thus the greater the individual's learning ability or the faster the individual learns, the more they produce. According to Parker (2004), Calvo and Wellisz (1980) showed that in a steady-state equilibrium the greater the growth rate in the total stock of knowledge and, therefore in the potential output, the more able the marginal entrepreneur is. Hence, given a fixed distribution of ability, the smaller is the number of entrepreneurs and the larger is the average firm size. Making ability two-dimensional, individuals are characterised by youth and ability. Calvo and Wellisz (1980) also reported that faster technological progress leads to an equilibrium outcome where older, less able entrepreneurs are replaced by younger and inherently more able entrepreneurs. This result reported by Calvo and Wellisz (1980) provides a rationale for Lucas' prediction of ever-declining entrepreneurship and ever-increasing average firm size. The Calvo and Wellisz (1980) model is *ad hoc* and partial equilibrium in nature, and ideally a general equilibrium analysis of both occupations is needed to fully understand the impact of technological change on entrepreneurship. Generally, this model assumes that heterogeneous abilities generate heterogeneous returns only in entrepreneurship, while returns in paid-employment are assumed to be invariant to ability. Furthermore, Calvo and Wellisz (1980) conclude that age and education should be determining characteristics of entrepreneurs and wage experience should be less important. He assumes that an analysis of entrepreneurs and non-entrepreneurs should show that the group

of entrepreneurs should possess a high level of education, high risk and less experience. Bae (2014) extended the analysis on the impact of entrepreneurship education on entrepreneurship intentions followed by Martin, McNally, and Kay (2013), who found a statistically significant relationship between entrepreneurship education and human capital outcomes respectively, and a positive correlation between entrepreneurship education and entrepreneurial intentions. Further literature evaluates the impact of entrepreneurship education on curricula activities analyzed by Jones, Maas, and Newbery (2017).

The Impact of Education, Gender, Age, Marital and Health Status on Entrepreneurship Activities

In this part, the paper describes the role of specific factors such as: education, gender, marital status and health on entrepreneurship performance by exploring different theories and approaches. There is different evidence describing the role of the above mentioned factors in entrepreneurship activities. These factors, such as individual and psychological, sociological and institutional factors, are analysed by different authors (Djankov, Qian Roland, & Zhuravskaya, 2005, 2006a, 2006b) along with financial constraints and labour market experience (Demirgüç-Kunt, Klapper, & Panos, 2008).

Education

There is evidence that education improves individuals' future earning and overall success (Angrist & Krueger, 1999). On the one hand, more educated people are better informed about business opportunities and might select occupations in which entrepreneurship is more common. On the other hand, the skills needed for entrepreneurship are different from those provided by formal education. They are generally regarded as relatively original persons who may have learned their business skills without too much formal education. There is some evidence suggesting that for highly educated people wage-based work tends to be a more attractive choice compared to self-employment. According to Lucas (1978), highly educated people earn more as employees than they would if they employed themselves. According to Bloodgood, Sapienza, and Almeida (1996), entrepreneurs provide a variety of tangible and intangible resources to an organisation. These include several types of human capital, management know-how and the ability to acquire financial capital (Cooper, Gimeon-Gascon, & Woo, 1994). Also, if education is seen as a screening device, then entrepreneurs have fewer incentives to acquire formal education.

Empirically, however, most studies have found positive effects of education on self-employment. In general, a higher education of self-employed

people should improve the growth opportunities of their firms because higher education improves the ability to comprehend market prospects, better exploits market demand, enhances the awareness of risk and improves adaptability in changing circumstances. Pekkalas and Kangasharju (2001) analysed the success of the self-employed and their firms in a period of economic downturn (1990–1992) in Finland and reported that in an economic downturn a higher level of education raises the probability of survival. The impact of education on self-employment depends on the industry in which someone is self-employed. Bates (1995) found significant and positive effects of education on the probability of commencing self-employment in skilled services, significant negative effects on the probability of commencing self-employment in construction and insignificant effects on the probability of commencing self-employment in wholesale and manufacturing activities. In 2002, Lazear proposed a ‘jack-of-all-trades’ model of entrepreneurship, suggesting that individuals with a wide variety of skills are more likely to become entrepreneurs, while those who specialise are likely to pursue wage-based work.

A UNDP survey for Kosovo (United Nations Development Programme 2005) reported that the education system in Kosovo does not offer proper knowledge and skills to young generations in order to prepare them in line with market economy requirements. They proposed that vocational education and training could help young generations adapt to the labour market. Based on this report, expectations are low that education will be a significant factor in supporting entrepreneurship and self-employment activities in Kosovo.

Gender

Gender differences concerning entrepreneurial characteristics have received considerable attention in recent years (Buttner, 1993). This attention is due to gender discrimination that puts women in a disadvantageous position, thereby creating a gap in the supply of entrepreneurs (Fisher, Reuber, & Dyke, 1993). By analysing self-employment in Bosnia and Herzegovina, Demirgüç-Kunt et al. (2008) found that gender determines entry into self-employment. Men are more likely to commence entrepreneurship activity than women. Bellu (1993), as well as Chagnati and Parasuramman (1996), suggest that there are few differences between male and female entrepreneurs.

In terms of the psychological traits associated with entrepreneurial performance and success, researchers have obtained mixed results. Master and Meier (1988) found no difference between a sample of male and female entrepreneurs in their risk-taking propensity. On the contrary, Sexton and Bowman-Upton (1990) reported that females score lower on traits re-

lated to energy level and risk-taking and higher on traits related to autonomy and change represented by exceptions. Mathews and Moser (1995) found that males showed a higher level of interest than females in small businesses ownership. Scherer, Brodzinski, and Wiebe (1990) also found that males have a stronger preference for entrepreneurship than females.

Age and Experience

It is generally argued that older and more experienced people are more likely to become self-employed. Namely, older people have had time to build networks and have been learning long enough about the business environment so that can more easily identify profitable opportunities in entrepreneurship (Calvo & Wellisz, 1980). Further, older people are more experienced and possess more of the human and physical capital requirements needed for entrepreneurship (Lucas, 1978). Lucas also pointed out the role of the capital that older people have accumulated over the years and that can be used to set up a business and overcome financial constraints. Since entrepreneurs possess greater control over the amount and pace of their work, entrepreneurship is probably better suited to older people. On the other side, entrepreneurs are less risk-averse people and need to work longer hours, which, according to Miller's (1984) 'job shopping' theory, suit younger workers better. Empirical studies usually find a concave relationship between the occurrence of self-employment and age and experience. Cowling (2000) and Global Entrepreneurship Monitor (2002) found that self-employment is concentrated among individuals mid-career aged between 35 and 44 years. Most econometric studies have found a significant positive relationship between age and self-employment. In their studies in the USA, van Praag and van Ophem (1995) found that for older people the opportunity to become an entrepreneur was significantly greater compared to younger people. Blanchflower, Oswald, and Stutzer (2001) supported these results with a finding that the actual number of those choosing self-employment increases with age.

Marital Status

Spouses and other family members can provide cheap labour and assistance. They can also provide emotional support, are more trustworthy workers and are less likely to shirk (Borjas, 1986). Based on the argument above, one might expect a positive relationship between marital status and self-employment. However, people who are married with children are generally less likely to take a risk and hence less suited to commence self-employment. Cross-sectional econometric evidence reveals that self-employed people are significantly more likely to have been married with dependent children (Devine, 1994; Cowling & Taylor, 2001).

Health Status

The relationship between self-employment and health is ambiguous. On the one hand, entrepreneurship is generally associated with greater flexibility and so is more suited to less healthy people. On the other hand, work hours and stress are on average greater for the self-employed and so they are less suited to people with poor health. Also, employees generally receive health cover while the self-employed must provide their own. According to Curran and Burrows (1989), evidence from the UK suggests that self-employed men have slightly better health than male employees, while self-employed females are less healthy than their employee counterparts. On the contrary, American studies such as that by Fredland and Little (1981) showed that mature American self-employed workers have significantly poorer health than employees. The evidence based on a probit analysis is hence mixed.

The Impact of Education on Entrepreneurship Development in the EU

According to the European Commission (2011), in 2000 around 22% of the jobs required higher qualifications and higher education, while 29% of the jobs required lower qualifications. Based on these projections, there will be a changing trend: by 2020, around 35% of the jobs will require higher qualifications.

The high-tech sector, i.e. sectors with a large proportion of high-skilled jobs, represented 5.5% of total employment and about 8% of EU's GDP in 2009. The sector has grown much more rapidly than the rest of economy (4.1% versus 1.8%) and it has created 1.4 million jobs between 1995 and 2009. This is particularly the case for high-tech services such as telecommunications, computer services and research & development. With regard to the comparison of EU, US and other countries, currently in the EU, only about one person in three aged 25–34 has completed a university degree, compared to well above 50% in Japan and more than 40% in the US. Canada, Australia and South Korea all do better than the EU. About 80 million people in the EU have only low or basic skills. More access to training could help reduce this, but actual participation is stagnating. Participation is highest for the youngest, the most educated and the employed, and is thus lowest amongst groups needing training the most. Beside the internal factors such as education and qualifications the external characteristics are very crucial for the entrepreneurship development, therefore, entrepreneurs in many EU member States still face important barriers, such as regulatory and administrative capacity, administrative burden for start-ups and barriers to competition, that slow economic growth. The Small Business Act for Europe (Commission of the European Communities, 2008) as a framework for entrepreneurship development is monitoring the policy environment for the SMEs in the EU but also in Western Balkan countries. EU SMEs still

face market failures undermining the conditions in which they operate and compete with other players in areas like finance (especially venture capital), research, innovation and the environment. For example, about 21% of SMEs indicate that accessing finance is a problem and in many EU countries the percentage is much higher for micro-enterprises. Also, fewer European SMEs innovate successfully when compared to large businesses. The situation is worsened by structural difficulties such as the lack of management and technical skills, and remaining rigidities in labor markets at national level.

According to the Small Business Act for Europe (Commission of the European Communities, 2008) the EU countries should promote innovative and entrepreneurial mindsets among young people by introducing entrepreneurship as a key competence in school curricula, particularly in general secondary education. It should ensure that it is correctly reflected in teaching materials and that the importance of entrepreneurship is correctly reflected in teacher training and in step-up cooperation with the business community in order to develop systematic strategies for entrepreneurship education at all levels. It should also ensure that taxation does not unduly hamper the transfer of businesses put in place schemes for matching transferable businesses with potential new owners provide mentoring and support for business transfers provide mentoring and support for female entrepreneurs provide mentoring and support for immigrants who wish to become entrepreneurs.

Methodology

The empirical analysis consists as follows: first, descriptive statistics are used. In the second part of the empirical analysis, regression analyses, such as Probit analyses, are used. According to Johnston and DiNardo (1997), a probit model has a 'behavioural interpretation' that is instructive and often analytically convenient.

According to Greene (2003), logit and probit models should always be used instead of regression techniques when the dependent variable is binary. Probit models are used to explain the selection into survival in entrepreneurship. Based on that (y) might be the outcome; whether an individual decides to be an entrepreneur or an employee, or whether an entrepreneur survives in entrepreneurship or exits the sector. On the contrary, (x) would be vector covariates such as personal characteristics or institutional characteristics etc.

With regard to empirical analysis, a questionnaire is employed comprising a random sample of 100 respondents, entrepreneurs in Kosovo, in order to measure the impact of education, gender, marital status, and health on entrepreneurship. Cross-sectional data is used in order to examine the de-

Table 1 Age, Gender, Marital Status, Education and Health Characteristics

Variables	Entrepreneurs	p-value test	Significance
Age	40.0	0.000	***
Male (%)	92.5	0.000	***
Married (%)	91.0	0.000	***
Education (number of years of education)	8.1	0.760	
Health (good or very good health)	72.3	0.000	***

Notes *** $p < 0.001$

Table 2 Individual Characteristics

Individual characteristics	Probit
Age	0.322 [0.143]
Male	0.361 [0.051]***
Health	0.026 [0.054]
Married	0.232 [0.052]***
Education	0.005 [0.060]

Notes *** $p < 0.001$

terminants of entrepreneurs. The important methodological issues in this research are the design of the questionnaire, the sampling frame and the data collection process.

The individual characteristics are proxied by age, marital status, gender, education and health. This paper briefly describes each of them. Age: denotes the year of birth of a respondent. Marital status: the variable has a value of 1 if a respondent is married, otherwise it equals 0. Gender: if a respondent is male, the variable equals 1, otherwise its equals 0. Education: the variable is equal to the logarithm of the number of years of education. Health: the variable equals 1 if a respondent evaluates his/her health situation as very good and good, otherwise it equals 0.

In addition, Table 2 describes the similar characteristics of entrepreneur's respectively individual characteristics by using probit analysis in order to compare them as well as to confirm the results of descriptive statistics.

According to the KOSME analysis and statistics, Table 3 represents the structure of enterprises in Kosovo according to the sectors and number of enterprises, and therefore the insolvent of enterprises in different sectors of the economy (Kosova SME Promotion Program 2014).

Interpretation of the Results

From Table 1, the paper summarises that, with regard to gender in Kosovo, entrepreneurs are mostly men, aged around forty years, and married. On average, they have had almost 10 years of education and are in relatively good health. The paper extends the analyses by using a Probit analysis in

Table 3 Enterprises According to the Economic Sectors in Kosovo

Economic Sectors	Number	Percentage
Production	4,825	10.5
Construction	3,289	7.1
Trade	19,672	42.7
Transport	2,602	5.7
Accommodation	3,499	7.6
Services	4,716	10.2
Personal services	4,376	9.5
Other sectors	3,053	6.6
Total	46,032	100.0

Notes Adapted from Kosova SME Promotion Program (2014).

order to confirm the previous results, therefore entrepreneurs from Kosovo have a higher probability of being married men and more optimistic (happy). Furthermore, with regard to the analyzed factors such as education, gender, age and marital status, the paper can conclude the following:

The education system in Kosovo does not offer adequate knowledge and skills in order to adopt them in line with labour market and entrepreneurship challenges. With regard to marital status in Kosovo, families take care of their children and young adults not only because of tradition but also due to economic dependence. This factor could motivate or push parents in Kosovo to intensify their entrepreneurship activities due to financial responsibility for their children.

Based on this evidence, it seems that females in Kosovo have a weaker preference for entrepreneurship activities than males due to the extreme business environment, lack of financial support and unfair competition. According to age, the new generations are transferring from school to the labour market. In Kosovo, it is very difficult to successfully achieve good performance due to the lack of practical skills offered by school programmes. Therefore, adequate experience or human capital is needed to induce and intensify entrepreneurship.

Furthermore, the structure of the enterprises in Kosovo explains why education is not a significant factor for entrepreneurship activities: taking into consideration that most of the enterprises are involved on trade (around 42.7%), construction and accommodation (around 15%), these sectors engage low educational background of entrepreneurs and employees. Only around 20% of entrepreneurs are involved on services and production activities. These sectors are expected to possess higher profile of educational background and specific knowledge of entrepreneurs. According to the Small Act Business report, the main challenges for the Western Balkan countries are revealed by the relatively small size of SMEs and their lack of

innovation and internationalization. Therefore enterprises tend to be local market-oriented.

Conclusions

Entrepreneurship development can contribute to increasing competitiveness, attracting foreign direct investments, as well as increasing employment and economic prosperity. Trade liberalization and regional integration gives access to larger markets for Kosovo enterprises but, at the same time, the EU market requires high level of services. Therefore Kosovo entrepreneurs lack a high level of education and knowledge.

The main conclusion of this paper is that entrepreneurs in Kosovo differ from other countries, as Kosovo is a region that in the last few decades has experienced adverse political and socio-economic conditions and has been unable to achieve substantial development. In this environment, entrepreneurship has not proceeded in a growth-oriented approach. As a consequence, Kosovo entrepreneurs could be accepted as predominantly trade-oriented, ready to take local market advantages, engaged in the trade sector and less engaged in small production activities and EU markets. They could be accepted as necessity entrepreneurs ready to perceive profit opportunities – the Kirzner-type of entrepreneur.

Kosovo entrepreneurs use redistribution effects of the local economy, are ready to undertake risk and new ventures, but are less prepared to compete at the international level. The Kosovar entrepreneur is an imitator rather than an innovator.

Taking into consideration the current level of education and its low impact on entrepreneurship, vocational education and training could help young generations adapt to the labour market and entrepreneurship activities.

Considering these factors, but also future challenges and opportunities such as engagement on regional and EU market, involvement on EU projects requires an increase in the educational and knowledge background of Kosovo entrepreneurs in order to adapt to a 'creative destruction' of the global market.

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