

## **DOES THE HIGHER EDUCATION PROMOTE STUDENTS’ ENTREPRENEURIAL POTENTIAL IN THE SOUTH-EASTERN EUROPEAN COUNTRIES?**

**DIMITAR NIKOLOSKI, PhD  
MARJAN ANGELESKI, PhD  
SLAVICA ROCESKA, PhD  
GJORGJI MANCHESKI, PhD**

*FACULTY OF ECONOMICS-PRILEP, UNIVERSITY “ST. KLIMENT OHRIDSKI”- BITOLA,  
MACEDONIA*

*e-mail: [dimitar.nikoloski@uklo.edu.mk](mailto:dimitar.nikoloski@uklo.edu.mk), [angeleskimarjan@gmail.com](mailto:angeleskimarjan@gmail.com),  
[slavica.roceska@eccfp.edu.mk](mailto:slavica.roceska@eccfp.edu.mk), [gmanceski@gmail.com](mailto:gmanceski@gmail.com)*

### **Abstract**

*Nowadays, there is a widespread recognition that business start-ups are a driving force of economic growth and significant job creation. Given the segmented characteristics of the labour markets, youth population is among those segments that are disproportionately affected by high and sustained unemployment. The situation with youth unemployment is particularly unfavourable in developing countries such as South-Eastern European countries where almost half of the active young population is jobless. Even though the governments in these countries have repeatedly undertaken measures for improving the position of youth on the labour markets, it seems that these endeavours have not reached the planned goals. From this perspective, it is important to analyse the potential contribution of education, and particularly the higher education to the development of entrepreneurship. The aim of this paper is to assess the role of the higher education in South-Eastern European countries in fostering the students’ entrepreneurial potential. For this purpose we have carried out a survey on representative samples of students in two universities: “St. Kliment Ohridski” (Macedonia) and “Aleksander Xhuvani” (Albania). We found that considerable number of surveyed students have ideas for starting own businesses, but only a small portion of them attempted to develop their business ideas in practice. As a consequence, we can conclude that there exists a wide room for further policy recommendations that will shape directions for future reforms in the SEECs higher education systems and will improve the students’ entrepreneurial potential.*

**Keywords:** *Entrepreneurship, higher education, unemployment, youth.*

**JEL Codes:** *I21, L26*

### **Introduction**

Fostering the entrepreneurial culture particularly among youth has been one of the most debated questions in the academic circles and in the general public as well. The focus on the entrepreneurship stems from the fact that it plays a key role in supporting the economic development through the process of creative destruction. Nowadays, there is a widespread recognition that business start-ups are a driving force of economic growth and significant job creation (Lüthje and Franke, 2002). Besides its important macroeconomic impact, entrepreneurship is considered as a factor for widening the potential career options and determining the individual professional development (Gerry et al., 2008).

The entrepreneurship literature is not decisive with respect of factors that influence the personal entrepreneurial potential. While, it has been generally recognised that individual characteristics, personality traits and contextual factors play dominant role in the entrepreneurial propensity of a given person, it is still questionable whether it is possible for people to learn to be entrepreneurs, mainly through the process of formal education. From this perspective, it is important to analyse the potential contribution of education, and particularly the higher education to the development of entrepreneurship. This is particularly relevant for policy interventions in developing countries which struggle with low investment opportunities due to the unfavourable qualification structure and insufficient skill endowments of the labour force. In the same time, promoting entrepreneurial culture among young population is expected to improve its employability and to reduce the youth unemployment rate.

Recently, the promotion of the entrepreneurship has received a top priority in the public policies worldwide. In this context, the European Commission in order to promote the Entrepreneurship 2020 Action Plan has proposed a number of activities and measures for supporting the entrepreneurial education and empowering the students for better education and increased opportunities for finding work. The most important argument in this context is that in turbulent market conditions succeed those who have knowledge and innovation capacities. The studies show that students who receive entrepreneurship education are not only more likely to be employed, but also more likely to start their own companies. In other words, “entrepreneurship education has a positive impact on the entrepreneurial mindset of young people, their intentions towards entrepreneurship, their employability and finally on their role in society and the economy” (European Commission, 2012).

The aim of this paper is to assess the role of the higher education in South-Eastern European countries (SEECs) in fostering the students’ entrepreneurial potential. For this purpose we have carried out a survey on representative samples of students in two universities: “St. Kliment Ohridski” (Macedonia) and “Aleksander Xhuvani” (Albania). In order to respond to the above stated research question the paper is structured as follows. In the second section we review the position of youth on the labour markets in SEECs with particular accent on youth unemployment. A critical elaboration of the recent higher education reforms in SEECs is given in the third section. In the fourth section we present the main results from the empirical analysis of the students’ entrepreneurial potential. Finally, in the last section we draw conclusions and propose policy recommendations aiming to promote the entrepreneurial culture among youth in SEECs through appropriate reforms in the higher education systems.

### 1. The youth on the labour market

For employment and unemployment purposes, as “youth” are generally considered people from the age when mandatory schooling ends through age 24. For most countries, that means the time span from 15 years old through 24 years old. A general rule of thumb is that young population that enters the labour force face higher risk of becoming unemployed. The empirical evidence shows that even in most developed countries the youth unemployment rates are approximately twice the adult rates (OECD, 2011). The situation in less developed regions such as South-Eastern Europe with respect to youth unemployment is even worse. For instance, the average youth unemployment rate in SEECs economies remains 2.5 times higher than the EU average and 3 times higher than the adult unemployment rate (La Cava et al., 2006). The situation of youth unemployment rates in SEECs compared to total unemployment rates in 2012 are presented in Figure 1.

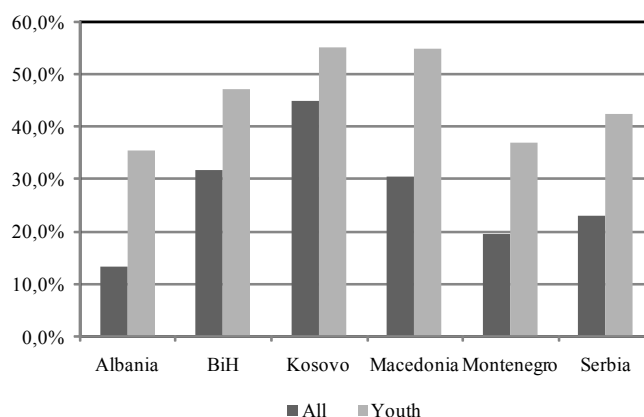


Figure 1. Unemployment rates in SEE countries, *Source: ILO*

The main reason for higher unemployment among young workers is a lack of skills and work experience which make them less competitive on the labour market compared to prime-age and more mature workers. Moreover, the formal education and training systems often have been ineffective at easing the transition from school to work or slow to adapt to the changing requirements arising from the rapidly changing industrial structure (O’Higgins, 2010). Among other factors that might cause higher incidence of youth unemployment are some labour market institutions (such as minimum wages and unemployment benefits). The problem of youth unemployment is often related to the role of the family at providing income support particularly in more traditional and collectivist societies. Finally, the unemployment among young population is highly cyclical sensitive, which means that youth are particularly hard hit in a recession. This has been confirmed by the recent global economic crisis and its adverse effects on the demand for labour (Bell and Blanchflower, 2010).

The persistence of high youth unemployment rates exerts long-term scarring effects on the adult workforce of the next generations (Blanchflower and Oswald, 2007). The youth unemployment and particularly long-term unemployment causes increased probability of engagement in risk-taking practices such as violent behaviour and excessive alcohol and drug use. Moreover, due to the low employment prospects, young workers are more likely resort to various alternative labour market adjustment mechanisms such as informal work and emigration. Namely, given high unemployment in SEECs, many youth have left their countries to look for jobs abroad, which has been considered as a source of brain drain and lost investment in education in the home country. In sum, high youth unemployment rates have negative impact on the economic growth prospects in developing countries.

The previous policy actions in SEECs aiming to reduce youth unemployment covered a range of activities such as: (i) non-formal education, which would provide a much needed complement to formal education; (ii) support of well-organised and sustainable youth organisations that can provide quality services to young people; (iii) youth participation and representation at different levels of governance; and, (iv) development and implementation of National Action Plans for youth (La Cava et al., 2006). However, taking into account that the standard policy measures have so far been insufficient in curing the problem of persistent high youth unemployment, there is a need for alternatives. A possible solution is to create entrepreneurial climate among the young, particularly those who are higher education students or graduates. Among the potential benefits of increased entrepreneurship is that it may promote innovations and thus foster creation of new jobs. In addition, creation of new small and medium sized firms may raise the degree of competition in the economy since young entrepreneurs are usually more responsive to new economic opportunities and trends.

## 2. Reforms in the higher education

Having in mind the depressed characteristics of the SEECs labour markets and particularly high youth unemployment, the higher education has faced a challenging task to become a generator of competitive entrepreneurial skills in order to promote greater employability. The important role of the higher education in the society has been widely acknowledged and continuous reforms have been undertaken in order to improve its quality. An effective higher education system has to provide students with necessary theoretical knowledge and practical skills in order to ease their transfer from education to work. On the other hand, the insufficient demand for labour prevents the policymakers from getting relevant feedback of the reforms efficiency. During the two decades long period of transition in the SEECs we have witnessed a variety of changes in the sphere of the higher education. The main features of this transformation will be briefly explained as follows.

First, there is a proliferation of a number of new higher educational institutions and study programmes. Alongside this process, the existing universities have permanently diversifying their curricula by offering new and more competitive study programmes. The rising number of higher educational institutions and study programmes has contributed to increase of competition and creation of critical academic climate. As a consequence, the number of enrolled students in higher education in all SEECs demonstrates a rising trend. Having in mind that returns to education in the market economy is higher than in the previous socialist system due to liberalisation of wage system, it was reasonable to expect rising rates of enrolment in post-compulsory education during the transition process (Cazes and Nesporova, 2003). However, in the case of SEECs, we can argue that rising trends of enrolment in higher education might reflect depressed labour market conditions and poor employment prospects among young population. The numbers of public and private higher education institutions in SEECs is presented on Figure 2, whereas the number of enrolled students is presented on Figure 3.

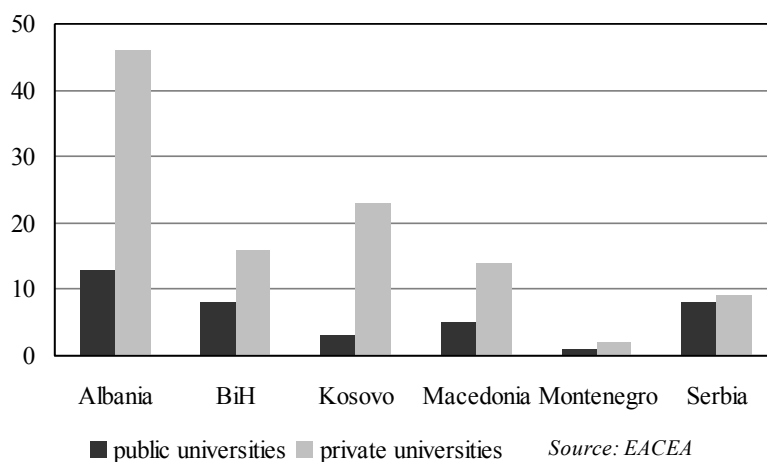
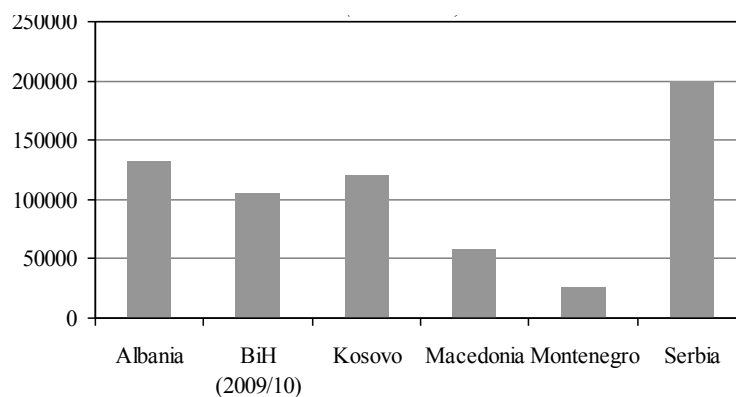


Figure 2. Number of public and private university in SEECs



Source: Education, Audiovisual and Culture Executive Agency (EACEA) & National State Statistical Offices

**Figure 3.** Number of enrolled students in SEECs (2012/2013)

Second, the composition of the graduated students in the higher education shows that most of the graduates come from the field of social sciences and humanities. The relative share of this category of graduates marks continuous increase in all SEECs. On the other hand, over the same period the relative shares of graduates in other fields of studies and particularly the natural, technical and technological sciences are continuously declining.

Third, the universities in SEECs have adopted the European credit transfer system and adhered to the Bologna process whose goal is ‘to create a European space for higher education in order to enhance the employability and mobility of citizens and to increase the international competitiveness of European higher education’. This trend has been crucial for the process of harmonisation of the higher education systems in SEECs with the common European standards. However, the recent evaluation of the Bologna process shows a number of weaknesses that imply needs for further revisions and improvements.

Fourth, the adoption of the new legislation in SEECs brought a number of novelties among which are: dispersed studies, clinical education, compulsory internship for all students and compulsory study programmes in English. For instance, the Law for higher education in Macedonia has been adopted in March 2008, whereas the corresponding law in Albania is adopted in May 2007. Up to the present, the Macedonian Law for Higher education has been modified ten times. Most of these reforms are dubious in their nature since they are not initially engendered from the academic milieu and are not widely supported by all members of the academic community. Moreover, these reforms have not been accompanied by appropriate analyses of the capacities and have been launched without providing the necessary technical and personnel logistics.

Finally, it is important to note that by 2012 there is no university from the SEECs which is ranked in the top 500 universities, nor by the Times Higher Education World University Rankings powered by Thomson Reuters, or by the Academic Ranking of World Universities (ARWU) conducted by researchers at the Centre for World-Class Universities of Shanghai Jiao Tong University.

### 3. Assessment of the students’ entrepreneurial potential

The entrepreneurial education is assumed to be a crucial factor for developing the entrepreneurial potential among young population. In this context, students who take courses related with entrepreneurship are quite different from other students in terms of being bolder, active, more willing to take risk, adaptable to conditions and practical (Ibicioğlu et al., 2008). In addition, entrepreneurship education seems to have positive effects on the employability in terms of job experience, creativity in the current job and annual income earned (European Commission, 2012). However, the extent of entrepreneurship education by country differs according to the country’s cultural and economic context. For example, the analyses show that entrepreneurship related disciplines are underrepresented in the European universities compared to other academic disciplines (Klandt and Volkmann, 2006). On the other hand, high school students in US are already familiar with entrepreneurship due to the long tradition of cultivating entrepreneurial spirit (Lee et al., 2005).

The recent development trends in the higher education in SEECs show notable enthusiasm with respect to entrepreneurial education. For instance, as argued by Kume et al. (2013) regarding the entrepreneurship education content of Albanian universities, many public and private universities are keen on entrepreneurial activities and practices. Similarly, according to the GEM report on entrepreneurship in Macedonia (2009), the situation with the entrepreneurship education in the Macedonian universities is drastically changed after the reforms and compulsory re-accreditation of the study programmes in accord with the new Law for higher education. With this respect, it is obvious a significant improvement in inclusion of subjects with entrepreneurial content at least as optional courses. In order to determine whether higher education in SEECs is promoter of entrepreneurial culture, we have undertaken assessment among students. The assessment was based on a survey carried out on representative samples of students in two universities: “St. Kliment Ohridski”, Macedonia (UKLO) and “Aleksander Xhuvani”, Albania (UNAX). These universities are located in neighbouring regions and are involved in a number of cross-border cooperation programmes that promote the economic growth and European integration of both countries. In the university “St. Kliment Ohridski” we have in total interviewed 578 students from six different faculties: Faculty of Economics, Faculty of Education, Faculty of Technical Sciences, Faculty of Administration and management information systems, Faculty of Law and Medical higher school. On the other side, in the university “Aleksander Xhuvani” we have in total interviewed 350 students from four different faculties: Faculty of Economics, Faculty of Education Sciences, Faculty of Natural Sciences and Faculty of Human Sciences. The size and structure of the samples according to various relevant attributes are presented in Table 1.

**Table 1.** The size and structure of the samples according to various attributes

	University “St. Kliment Ohridski” (UKLO)	University “Aleksander Xhuvani” (UNAX)
<b>Sample size</b>	578	350
<b>Degree of studies</b>		
Undergraduate	516 (89.27%)	295 (84.29%)
Postgraduate	62 (10.73%)	55 (15.71%)
<b>Year of studies</b>		
1	227 (39.27%)	67 (19.14%)
2	91 (15.74%)	64 (18.29%)
3	139 (24.05%)	164 (46.86%)
4	121 (20.93%)	55 (15.71%)
<b>Gender</b>		
Male	218 (37.72%)	123 (35.14%)
Female	360 (62.28%)	227 (64.86%)
<b>Place of living</b>		
Town	454 (78.55%)	259 (74.00%)
Village	124 (21.45%)	91 (26.00%)

Source: Authors' calculations

From Table 1 we can notice that although different in size, the structure of the samples is relatively close with respect to the major attributes such as: degree and year of studies, gender and place of living of the surveyed students.

According to the results from the survey, on average about 43% of the respondents declared that have concrete idea for starting own business. The comparative analysis shows that percentage share of Macedonian students who have their own business ideas is higher (46%) compared to the percentage share of Albanian students who have business ideas (33.1%). However, only one quarter of this group of students declared that so far have attempted to develop their business ideas in their own businesses. Among the main reasons that impede students to start their own businesses are the lack of financial funds and risk of failure. On the other hand, a considerable number of surveyed students in both countries (45.3% in Macedonia and 38.4% in Albania) declared that in their countries exists a favourable business climate which is supportive for start-up companies and entrepreneurship.

In order to determine the factors that influence the initiative among students to start their own businesses we estimate a logit model, where the response variable is binary. In this case, the dependent variable takes value 1 if the respondent declared that he/she has an idea for starting own business and 0 in the opposite case. The results of the estimated logit model are presented in Table 2.

**Table 2.** Estimated Logit model (having idea for starting own business) entire sample

Variable	Coefficient	Standard error	t-value	Diff. in odd ratio
Intercept	-2.16337	0.36199	-5.97621	
Postgraduate	-0.16963	0.22296	-0.7608	
Final year of studies	-0.05838	0.19154	-0.3048	
Male	0.25502	0.15016	1.6982*	29.0%
Urban	0.29200	0.17550	1.6638*	33.9%
Acquired knowledge fulfils previous expectation	-0.15154	0.19140	-0.7917	
Studies provide theoretical knowledge	0.52828	0.24161	2.1864**	69.6%
Studies provide practical skills	0.22211	0.14854	1.4953	
Studies prepare to start successful professional career	-0.34474	0.17672	-1.9508**	-29.2%
Perceives as employed after graduation	0.10774	0.14806	0.7276	
Have ambition to continue education after graduation	0.66206	0.17791	3.7211***	93.9%
Link between university and business community	-0.01393	0.17562	-0.0793	
Studies create incentives to start own business	1.31163	0.15767	8.3188***	271.2%

Note: \*, \*\* and \*\*\* represent statistical significance at the 10%, 5% and 1% levels respectively.

From Table 2 we can notice that among socio-demographic factors, gender and place of living are statistically significant. Namely, male students have about 29% higher intention for starting own businesses, whereas those who live in urban areas are about 34% more prone toward starting own businesses. From the educational point of view, statistically significant determinant of the entrepreneurship among students is the theoretical knowledge, since those who are satisfied with the provided theoretical knowledge are about 69.6% more likely to have ideas for starting own businesses compared to those who are not satisfied with the provided theoretical knowledge. On the other hand, students who think that studies prepare themselves to start successful professional career are about 29.2% less likely to have ideas for starting own businesses. Therefore, those who are prone toward starting own businesses have 94% higher ambition to continue education after graduation. Finally, students who think that studies create incentives to start own business face almost three times higher probability to have idea for starting own business.

#### 4. Conclusions and recommendations

Nowadays, there is no doubt that the entrepreneurship represents one of the most important driving forces of the economic development. The importance of the entrepreneurship in the society is twofold: first, it is promoter of new businesses which are basis for increased job creation and, second, it creates an open window for the personal career development and individual success. Hence, fostering the entrepreneurial potential among young population can be considered as a viable strategy for increasing the economic growth and, in the same time, for combating the youth unemployment problem.

Given the segmented characteristics of the labour markets, youth population is among those segments that are disproportionally affected by high and sustained unemployment. The situation with youth unemployment is particularly unfavourable in developing countries such as SEECs where almost half of the active young population is jobless. The origins of youth unemployment might be attributed to various factors, whereas its consequences might be distinguished from the individual and macro perspective. Even though the governments in these countries have repeatedly undertaken measures for improving the position of youth on the labour markets, it seems that these endeavours have not reached the planned goals. Therefore, there is still a wide room for creating appropriate policy interventions that will target the young population by increasing its employability.

In these circumstances it has been generally recognised that higher education plays important role in improving the functioning of the labour markets by providing the students with the necessary theoretical knowledge and practical skills. Therefore, we reviewed the main features of the reforms in the higher education systems in SEECs. Generally, they are characterised with increasing number of higher education institutions as well as rising number of enrolled students particularly in the field of social sciences and humanities. Furthermore, there is a widespread implementation of the credit transfer system, adoption of new higher education legislation and establishment of systems for internal and external quality assurance. However, the quality of the higher education in SEECs as measured by international standards is still lagging behind higher education systems in more developed countries.

In our empirical analysis we have interviewed a sample of students from two universities: “St. Kliment Ohridski” (Macedonia) and “Aleksander Xhuvani” (Albania) in order to assess whether the higher education promotes the students entrepreneurial potential. We found that considerable number of surveyed students have ideas for starting

own businesses, but only a small portion of them attempted to develop their business ideas in practice. Among the main reasons that impede students to start their own businesses are the lack of financial funds and risk of failure. With respect to the entrepreneurship determinants, we found that being male and living in urban areas positively affects the entrepreneurial potential. Furthermore, the provided theoretical knowledge by the universities increases the entrepreneurial potential, while the provided practical skills do not appear to be significant determinant. Those who have business ideas to lesser extent consider studies as precondition for starting successful professional career, but despite this they have ambitions to continue studies after graduation and think that they create incentives to start own business. As a consequence, we can conclude that there exists a wide room for further policy recommendations that will shape directions for future reforms in the SEECs higher education systems and will improve the students' entrepreneurial potential.

Having in mind the previous findings we briefly formulate the following main directions for policy interventions in the domain of the higher education: (i) design and implementation of flexible curricula with greater representation of subjects that develop the students' creativity and entrepreneurial skills; (ii) a shift from the traditional learning approaches and methods toward application of practical knowledge; (iii) a greater inclusion of the successful entrepreneurs and representatives from the business sector in the higher education process; (iv) adoption of innovative practices (such as prizes) that will create incentives for generating potentially successful entrepreneurial ideas by the students; (v) providing financial help through donors and business angels that will increase the self-employment among students; (vi) developing university business incubators and innovation centres that will encourage the students' entrepreneurial and innovative potentials and will help in developing the students projects from ideas to successful start-ups.

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