Determinants of Entrepreneurial Intention

Alison F. Davis
Community and Economic Development Initiative of Kentucky (CEDIK)
Department of Agricultural Economics
University of Kentucky
Email: alison.davis@uky.edu

Shaheer Burney
Community and Economic Development Initiative of Kentucky (CEDIK)
Department of Agricultural Economics
University of Kentucky
Email: shaheer.burney@uky.edu


Copyright 2015 by Alison Davis and Shaheer Burney. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies
Determinants of Entrepreneurial Intention
Alison Davis and Shaheer Burney
Department of Agricultural Economics
University of Kentucky

INTRODUCTION
What causes individuals to become entrepreneurs? Literature has identified many determinants of entrepreneurship but empirical evidence still seems to be indefinite. The main hypothesis this study tests is how individual and contextual factors impact entrepreneurial intention. There are two main contributions of this study:

1. Use of a novel dataset generated by the Kentucky Entrepreneurship Survey (KES)
2. Inclusion of both individual and environmental factors in empirical analysis using respondent’s perception of each

DATA
• A Kentucky-wide survey was conducted in 2013 specifically to test the above hypothesis. The KES provides a sample of 1474 households comprising of about 670 household heads that have experience in starting a business.
• The survey sampled 79 counties, including 12 rural mining counties, 56 rural farming counties, and 11 urban counties.
• Of the surveys sent out, about 47% included households with an entrepreneur head, 17% included household heads that are farmers, and the remaining 36% included randomly selected households whose heads are neither self-employed nor farmers.

CONCEPTUAL MODEL
Literature identifies two categories of entrepreneurial intention:

1. Entrepreneurial Self Efficacy (ESE): The individual’s belief (confidence) in his/her ability to influence the events of his/her life. The model measures ESE by respondent’s ranking of his/her:
   - Innovativeness
   - Proactiveness (problem-solving)
   - Financial skills
   - Team building ability
   - Risk aversion
   - Persistence (through adversity)

2. Community Entrepreneurial Climate (CEC): A measure of community factors that encourage or deter individuals to start businesses. CEC is measured using the following characteristics of the community as perceived by respondent:
   - Diversity and change tendencies
   - Business discouragements
   - Focus on local businesses
   - Business Promotion by public sector

EMPIRICAL MODEL
The empirical model is specified using the following equation:

\[ EI_i = \beta_0 + \beta_1 ESE_i + \beta_2 CEC_{ic} + \beta_3 X_i + \epsilon_i \]

where \( EI_i \) represents individual i’s entrepreneurial intent, \( ESE_i \) measures the individual’s perception of ESE, \( CEC_{ic} \) measures individual i’s perception of community c’s CEC, and \( X_i \) is a vector of individual-level demographic variables.

ESE and CEC are quantified using a scale for each respondent’s cumulative ranking of questions regarding each aspect of ESE and CEC. The model is estimated separately for urban and rural households.

RESULTS

<table>
<thead>
<tr>
<th></th>
<th>Probit Marginal Effects on Entrepreneurial Intention</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
</tr>
<tr>
<td></td>
<td>Margin</td>
</tr>
<tr>
<td>Diversity and Change</td>
<td>-0.003</td>
</tr>
<tr>
<td>Business Discouragements</td>
<td>0.009</td>
</tr>
<tr>
<td>Focus on Local</td>
<td>0.016</td>
</tr>
<tr>
<td>Business Promotion</td>
<td>-0.013</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>0.035***</td>
</tr>
<tr>
<td>Proactiveness</td>
<td>-0.01</td>
</tr>
<tr>
<td>Financial Skills</td>
<td>0.013*</td>
</tr>
<tr>
<td>Team Building</td>
<td>0.005</td>
</tr>
<tr>
<td>Risk Aversion</td>
<td>-0.025</td>
</tr>
<tr>
<td>Persistence</td>
<td>0.004</td>
</tr>
<tr>
<td>Male</td>
<td>-0.006</td>
</tr>
<tr>
<td>Black</td>
<td>0.076</td>
</tr>
<tr>
<td>Employed</td>
<td>0.123***</td>
</tr>
<tr>
<td>Entrepreneur</td>
<td>0.110**</td>
</tr>
<tr>
<td>Income less than $20,000</td>
<td>0.132**</td>
</tr>
<tr>
<td>College Degree</td>
<td>0.047</td>
</tr>
</tbody>
</table>

* p<0.10, ** p<0.05, *** p<0.01

CONCLUSIONS
• Diversity and Change has a strong negative effect in rural counties. This is likely due to rural residents having a negative outlook for the future of their community.
• Innovativeness has a strong positive impact on EI in both rural and urban areas. Individuals who have high confidence in their ability to innovate are more likely to start a business.
• Confidence in one’s financial management skills tends to significantly cultivate EI in urban residents but not residents of rural counties.
• Proactiveness, Risk Aversion, and Persistence are characteristics of rural EI but are not significant among urban residents.