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## **Determinants of Entrepreneurial Intention**

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# Determinants of Entrepreneurial Intention

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## INTRODUCTION

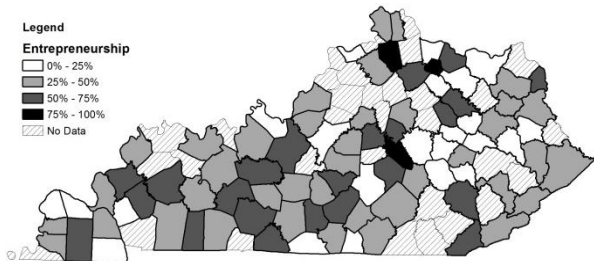
What causes individuals to become entrepreneurs? Literature has identified many determinants of entrepreneurship but empirical evidence still seems to be sparse. The main hypothesis this study tests is how individual and contextual factors impact entrepreneurial intention. There are two main contributions:

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

## DATA

- A Kentucky-wide survey was conducted specifically to test the above hypothesis. The Kentucky Entrepreneurship Survey 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 a 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.

Legend  
Entrepreneurship  
0% - 25%  
25% - 50%  
50% - 75%  
75% - 100%  
No Data



## 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. ESE is measured by perceptions of:
  - ❖ 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:
  - ❖ 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:

$$EI_i = \beta_0 + \beta_1 ESE_i + \beta_2 CEC_{ic} + \beta_3 X_i + \varepsilon_i$$

where  $EI_i$  represents individual's  $i$ '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 demographic factors.

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

	Probit Marginal Effects on Entrepreneurial Intention			
	Urban		Rural	
	Margin	Std. Er.	Margin	Std. Er.
<i>Diversity and Change</i>	-0.003	(0.003)	-0.010**	(0.00)
<i>Business Discouragements</i>	0.009	(0.01)	0	(0.01)
<i>Focus on Local</i>	0.017	(0.01)	0.007	(0.01)
<i>Business Promotion</i>	-0.013	(0.01)	-0.004	(0.01)
<i>Innovativeness</i>	0.036***	(0.01)	0.033***	(0.01)
<i>Proactiveness</i>	-0.01	(0.01)	-0.014*	(0.01)
<i>Financial Skills</i>	0.015**	(0.01)	-0.001	(0.01)
<i>Team Building</i>	0.003	(0.01)	0.001	(0.00)
<i>Risk Aversion</i>	-0.024	(0.02)	0.022	(0.01)
<i>Persistence</i>	0.006	(0.01)	0.018*	(0.01)
<i>Male</i>	-0.009	(0.04)	-0.022	(0.03)
<i>Black</i>	0.09	(0.07)	0.195*	(0.12)
<i>Employed</i>	0.108***	(0.04)	0.061*	(0.04)
<i>Entrepreneur</i>	0.101***	(0.04)	0.060*	(0.03)
<i>Income less than \$40,000</i>	-0.014	(0.04)	0.022	(0.03)

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

- While diversity and change does not significantly influence EI in urban counties, it 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. This is intuitive as 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.
- Being employed and having previous experience in starting a business are both significant predictors of EI, albeit the effect is stronger in urban areas.