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# Youth Entrepreneurship and Changes in Business Environment: Case of the Czech Republic

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## Summary

This chapter focuses on the current Czech business environment, with an emphasis on the segment of small and medium-sized enterprises (SME), including business activity based on trade licenses in the Czech Republic. Special attention is devoted to the general trend of gradual reduction of business activity and the lack of desire among the young generation to begin doing business, with a preference for employment relationships. This is the area on which our research has focused. The aim of this chapter is to familiarise readers with the context of the business environment, including the social climate, and to present it in relation to the results of quantitative research in the young generation, mapping their willingness to get involved in business activity as well as their concerns and the barriers to entrepreneurship. The respondents were students of various education levels (vocational, secondary school and university) and included individuals from all of the country's regions. Not only did respondents' optimism and faith in doing business differ based on their education levels, but the regional survey was also conducted in April 2013, and a sampling of 776 respondents were questioned using the CATI method. The willingness to do business versus rejection of business activity as a future direction was at a ratio of 547:229, which could be considered a positive result for potential future reversal of the trend of reducing average entrepreneurial activity in the Czech Republic, but the survey revealed that not all respondents had an exact idea of their future. However, the major barriers to doing business were read by the young generation relatively realistically, since to a great extent they correspond with studies conducted among experienced entrepreneurs. Therefore, it can be concluded

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that easing of discovered barriers could truly help revive business activity, which in various forms is desirable both in terms of the country's economic growth and for sustainability and serviceability of regions as well as social cohesion.

**Keywords:** entrepreneurship; young business; barriers to start business; motivators to start business; role of entrepreneurs

**JEL classifications:** M13, M21, O12, O52

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## 8.1. INTRODUCTION

The role of small, medium-sized and especially microenterprises and self-employed persons has been undergoing a natural transformation in each country's economy. In the case of the Czech Republic, these groups have experienced turbulent developments since 1990 (the year from which modern free enterprise is dated). In the 90s, the market was starving and accepted practically anything, and so doing business was relatively easy and had quick results, even despite a missing solid legal framework. Entrepreneurship was synonymous with economic success and expectation of financial surpluses. With the saturation of the market, the rapid increase in competition from abroad (particularly after the Czech Republic's accession to the EU in 2004), a reduction in the availability of financial resources, sophistication processes and the legal framework, the role of the SME segment and particularly that of micro enterprises began to change. While small and mid-sized enterprises have begun searching for their positions on the market often via clear profiling and specialisation, with the use of the advantages of their sizes (such as flexibility, quick decision processes, changes in profiling, etc.) compared to large and multinational players, the role of micro enterprises and entrepreneurship has been focused more on the sustainability of regions and their serviceability.

Although according to statistics the Czech Republic has an above-average share of self-employed people in comparison to the rest of the EU (the number of entrepreneurs is 223.02 per 1,000 people, according to official national statistics), this is a somewhat misleading figure. Of the approximately 850,000 active self-employed people, nearly 300,000 of them are also in a traditional employment relationship. However, what is alarming is the increasing lack of desire among young people to begin doing business, with them giving a preference to employment relationships. This is the area on which our research has focused and to which this entire chapter is devoted. Our aim is to familiarise readers with the present context of the business environment, including the social climate in the Czech Republic, and to present it in relation to the results of quantitative research in the young generation, mapping their willingness to get involved in business activity as well as their concerns and the barriers to entrepreneurship.

In this chapter of the book, we will combine the results from our mentioned quantitative survey with the official statistical data (according to the Czech Statistical Office), but generally available results of other conducted studies will also be used, so that we can accurately present the trend in the business environment in the Czech Republic and show how the role of micro enterprises is developing in the country's economy and what the basic reasons are for the decline in desire among the young generation to go it alone and begin doing business.

Majumdar and Varadarajan (2012) see entrepreneurship as „the interaction of personal characteristics (risky, creativity, and need for achievement) with perceptions of competencies and familiarity (entrepreneurial experience, knowledge, awareness, and interest)“, and say that these factors “become critical to assess the students’ entrepreneurial potential”.

For defining micro, small and mid-sized enterprises, we use the standard European Commission Regulation (EC) No. 800/2008 of 6 August 2008. The basic criteria for evaluating the size of an enterprise include the number of employees, the annual turnover and the balance sum of the yearly balance sheet (size of assets/property). A tiny, small or mid-sized enterprise is generally understood as an enterprise that employs fewer than 250 people and whose annual turnover/revenues do not exceed EUR 50 million and whose assets/property do not exceed the value of EUR 43 million. In the category of small and mid-sized enterprises (SME) small enterprises are defined as enterprises that employ fewer than 50 people and whose annual turnover/revenues or assets/property do not exceed EUR 10 million. In the category of small and mid-sized enterprises (SME) tiny (micro) enterprises are defined as enterprises that employ fewer than 10 people and whose annual turnover/revenues or assets/property do not exceed EUR 2 million.

According to the Czech Statistical Office and their statistics as of 31 December 2013, a total of 1,103,409 SME engaged in business activity in the Czech Republic (with a number of employees between 0 and 249), while of that number the number of self-employed individuals, including those who employed their own staff), amounted to the aforementioned 849,200, and there were 254,209 legal entities (companies). Compared to 2012, there was a decline by 13,121 entities, who disappeared from the market. The total number of employees of small and mid-sized enterprises in 2013 also fell compared to 2012, by 92,000 jobs (4.95%). However underestimated SME often are in terms of employment, their share of the total number of employees in the business segment in the Czech Republic in 2013 was 60.9%.

For a complete description of the business environment in the Czech Republic, it is necessary to point out that the share of small and mid-sized enterprises in the total number of active enterprises in 2013 was 99.84%, which differs from the EU average only very slightly. The share of SME in added value amounted to 56.76%, while their share of gross domestic product is not currently determined by the Czech Statistical Office in size allocation and therefore cannot be stated seriously.

## 8.2. LITERATURE REVIEW

The Czech Republic is a small open economy and as such is sensitive to external influences. In any small country economic growth depends not only on export performance, but also the ability to adapt to changes that occur in the business environment. That holds true for enterprises too (Breckova and Havlicek, 2013). Small and medium sized enterprises (SME) including entrepreneurs are considered to be a true back-bone of the European economy, being primarily responsible for wealth, economic growth and especially social cohesion, of which relevance is on rise. Another important feature is stability of SMEs in national economies. They only rarely leave the home country in terms of moving manufacturing sites, and only rarely transfer the capital out of country (Breckova and Havlicek, 2013). And these authors continue “one of the main assets of the SMEs

nevertheless, is their flexibility and an ability to survive under various conditions and it applies also to the international operations, which are no longer a domain of large or multinational companies." As Urbaniec states in her paper (2015) „SMEs account for a significant contribution to the economic development of the EU. The key performance indicators are: the number of SMEs, the value added (in current prices) generated by SMEs, and the number of persons employed by SMEs. Across the EU, there are more than 21 million SMEs, i.e. nearly 99.8% of companies, including up to 92.4% micro-enterprises" (Urbaniec, 2015, pp. 98).

„Entrepreneurship is often associated with economic development, where by economic development suggests activities that facilitates in the improvement of the country and society's standard of living" (Bakar et al., 2015, p. 88). It is possible to state that entrepreneurship has a vital role in the economy, also the growth of the economy. Another, for example social aspects of entrepreneurship could be found. Bakar et al. (2015, p. 88) also declares that „entrepreneurship helps the economy by providing job opportunities. The lack of job opportunities has caused unemployment rates to increase tremendously throughout the years making the development rate of a country slow down".

In 2013, Majumdar (p. 279) stated that „entrepreneurship and innovative business behaviour have also been associated with creativity and in the business context, creative novelty is often translated into idea development (Ward, 2004, as cited in Majumdar, 2013, p. 279), new product innovations (Amabile, 1996, as cited in Majumdar, 2013, p. 279) and adapting or improving existing innovations (Kirton, 1987, as cited in Majumdar, 2013, p. 279)". Very often in these areas, young people play an important role, since they could be seen as those who are still not subject to very many work and process stereotypes, without which it would understandably be difficult to run practically any business.

Jeraj and Marič (2013) support this claim, when they say that entrepreneurs have their own life style and look at everyday things in a different way than non-entrepreneurs, and they continue: "According to Ward (2004) entrepreneurs face many significant challenges and tend to think in non-conventional ways and after Kirby (2004) they try to challenge existing assumptions and to be flexible and adaptable in their problem-solving". In their paper Jeraj and Marič (2013) also say that "entrepreneurs impact positively on enterprise performances (Adam, 2004) and draw upon their human capital (knowledge, skills, and values) to advance the interests of their organizations (Ruzzier, 2007, as cited in Jeraj & Maric, 2013, pp. 264)".

"Entrepreneurs behave more innovatively than employees and managers so they are too important for the development of the knowledge economy of each country" (Lukeš, 2013).

Hamburg (2014) in her paper argues that European SMEs faced a big number of pressures. More entrepreneurs, more innovation and growth are necessary and this could be realized particularly by supporting young people, believes Hamburg (2014), who adds that many European countries have on their agenda the improvement of education for entrepreneurship but there exist only isolated initiatives. The vocational and/or high education in almost all European countries do not offer realistic understanding of the world of work and SMEs do not support schools and higher institutions in this context also due to lack of resources.

A study was conducted in the Czech Republic in 2013 as part of the international Global Entrepreneurship Monitor (GEM) project, which in its approach is based on two assumptions. The first is that the prosperity of the economy depends on the dynamic business sector. The second is that this sector needs individuals with skills and motivation to commence business activity (Report on the development of SME, 2014).

According to this Report, 7.33% of the adult population between the ages of 18 and 64 are involved in new business activity in the Czech Republic. Therefore, the Czech Republic ranks in 50th place among the 67 examined countries. The new business activity includes individuals carrying out specific steps to launch new business activities as well as those who have been running a company for less than 42 months. Compared to in 2011, new business activity has slightly declined, by 0.31%, compared to in 2006, when it declined by 0.52% (Report on the development of SME, 2014). It is also apparent from this source that the main sector in which new companies are being established is the sector of services for end consumers. The share of this sector has been growing compared to 2011 and 2006. Contrastingly, the share of new business activity in the industrial and construction sectors has been declining. Nonetheless, at present based on an international comparison the share of the industrial and construction sectors in the Czech Republic remains significant. Newly launched companies often include those offering services such as hairdressing, cosmetic services and e-shops. Given the evident trend of a greater future share of companies from the service sector, it is also necessary to adapt support for companies being newly established in this sector. Therefore, the importance of preparation of survivable business models that provide real added value to customers may be emphasised.

### 8.3. MATERIAL AND METHODS

Statistics have shown that the growth in the number of new enterprises has begun slowing. There is an alarming trend in particular among the self-employed and micro enterprises, defined as those with 9 or fewer employees. The enthusiasm for business from the 90s is being replaced with a sobering attitude, and the younger generation would rather enter employment relationships. So that we can identify the detailed reasons for this significant characteristic of today's Czech business environment, specifically the low amount of motivation to start business activity, particularly among young people and school graduates, we have conducted a unique survey in cooperation with the Association of Small and Mid-sized Enterprises and Crafts in the Czech Republic<sup>1</sup> among 776 young respondents, which should reveal the main barriers to business activity in the Czech Republic as well as the motivators for it.

In order to obtain the empirical material, quantitative research was chosen and applied. The main research method was the research survey using the in-depth telephone interviews based on a questionnaire for data collection. The survey was conducted in April 2013 and both authors of this chapter were actively involved in it (for details see

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<sup>1</sup> AMSP ČR (Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic), [www.amspace.cz](http://www.amspace.cz), an influential non-profit non-governmental representative of this segment of companies

the AMSP's 21<sup>st</sup> survey with the title "*Podnikání mladých – Young Business*"<sup>2</sup>, 2013). For clarity and for the purpose of comparison with other conducted studies, we shall refer to this survey hereinafter as the "Young Business Survey".

Computer Assisted Telephone Interviewing (CATI) was applied as the main survey method. The survey conductors requested data from respondents during telephone interviews and stored the data directly on a PC. Each standard telephone interview lasted between 18 and 21 minutes. The number of respondents who answered the entire questionnaire was 776. Their structure was as follows: about 25% were students of secondary vocational schools, about 25% were students of regular secondary schools, and about 50% were university students or fresh graduates. The ratio of respondents who basically did not reject business activity versus those who did reject it was 547: 229. The survey covers all regions of the Czech Republic.

#### 8.4. RESULTS AND DISCUSSION

It can be stated very generally that the results of the survey point primarily to the following reasons for the decline in willingness to begin doing business in the Czech Republic: administrative obstacles, a lack of finances, a lack of ideas and concerns about loss of comfort; only a minimal effort by schools to invite successful entrepreneurs to participate in instruction and familiarise the students with actual business experience. According to the survey, these are most often the barriers leading young people to give preference to the security offered by a legal employment relationship (in other words, they let themselves get hired).

Another purpose of the survey was to determine what to do for the upcoming generation, so that they would give preference to "steering their own boats" over "becoming small fish in a big pond". The survey revealed that young people do not expect only an informational service, focused especially on the ability to obtain financing and marketing information, but in addition they are interested in active mentoring and want to communicate with and learn from role models. It is interesting that nearly 90% of young people are practically unaware of any support programmes to help them start businesses, although an overwhelming majority of them consider the existence of such programmes to be very useful. The fact that they want to meet people with business experience is a signal for schools, since for the most part students evaluate their current opportunities to meet with successful businesspeople at schools as insufficient. Hamburg (2014) also considers the level of support for business activity at schools to be insufficient and describes the problem as a weak link in the chain in most European countries.

It is apparent from the survey that the business environment is perceived as not entirely friendly for starting business. A total of 72% of respondents evaluate it as negative or rather negative. Students do not view the current situation as ideal for starting business, and among them vocational students are the most pessimistic in view of the current situation.

A role may also be played in this case by the periodically repeated social and political discussions regarding the hot topic of expense allowances, which can provide micro

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<sup>2</sup> AMSP CR 21<sup>st</sup> survey with the title "*Podnikání mladých – Young Business*" available at <http://www.amspace.cz/21-pruzkum-amspace-cr-podnikani-mladych-young-business>

enterprises with a specific form of administrative relief of up to CZK 2 million (EUR 71,000) per year by giving them the opportunity to apply an expense allowance instead of conducting regular accounting. The way this works in practice is that the micro enterprise records only income (revenues) from business activity, applies an expense allowance to it, such as in the amount of 60% (which is intended to reflect the approximate percentage of expenses necessary for achieving the particular income), and pays traditional income tax on the rest of the earnings. There are three different expense allowance percentages in the Czech Republic (40%, 60% and 80% depending on the type of activity), and they have long been considered controversial by governing coalitions, since micro enterprises, through their existence and functioning, sustain regional infrastructure and social cohesion. Moreover, in the Czech Republic there is generally high administrative and legislative burden on business operators, which is difficult to manage especially for micro enterprises.

This result also corresponds to the published results of the already cited analysis of business activity within the international Global Entrepreneurship Monitor (GEM) project, which was conducted in the Czech Republic in 2013. The results of the analysis are included in the government's Report on the Development of Small and Medium-sized Enterprises and Its Support in 2013, published in the subsequent year (hereinafter referred to as the "Report on the Development of SME, 2014"), from which, among other sources, we are drawing data for detailed monitoring of the Czech business environment. "In an international comparison, the Czech Republic's position is quite bad as far as business education at elementary and secondary schools is concerned. Other problematic areas include cultural and social norms, education at universities and life-long education as well as low market dynamics." (Report on the Development of SME, 2014, p. 59). The report continues with more detailed diversification and adds that, like in 2011, 2.6 times more men than women are involved in new business activity, "which indicates a greater difference between genders than is typical in the overwhelming majority of other countries. For established businesses, the difference between the genders is not as drastic. The lower new involvement of women in business indicates the risk of a reducing number of female entrepreneurs in subsequent years."

However, very recent signals in reaction to the developing business and employment environments in the Czech Republic have shown that the "overall trend of recent months has seen an unusually high number of women entering business (Association of Small and Mid-Sized Enterprises and Crafts of the Czech Republic, survey "Positions of Women in Business"<sup>3</sup>). Therefore, in the Association of Small and Mid-sized Enterprises and Crafts a survey was conducted regarding their motives and the findings that would assist them in their activities. However, generally so far it cannot be said that there is a long-term trend, as it will be necessary to await the official statistics from the macroeconomic environment.

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<sup>3</sup> Association of Small and Mid-sized Enterprises and Crafts of the Czech Republic, survey "Positions of Women in Business" conducted in June 2014 among a sampling of 425 women (137 entrepreneurs, of whom for 114 business activity is their main source of income, and 288 non-entrepreneurs). The survey was conducted using the CAWI method, with a standardised questionnaire that took approximately 10-12 minutes to complete. The survey results are accessible at <http://www.amspace.cz/27-pruzkum-amspace-cr-postoje-zen-k-podnikani>

Many authors (e.g. Bakar et al., 2015) claim that entrepreneurship is a means to beat youth unemployment. In this context, it also appears to be a path in the Czech Republic as well, not only for the group of graduates on whom this chapter is primarily focused, but very often also for other groups of people in various life phases and situations. Women with small children are one possible example, as it is difficult for these women to return to their original work situation, especially when the employer is either unable or unwilling to react flexibly to the newly arising needs (such as adjustment of the work period, a flexible work period, a partial home office, a temporarily shortened work period, etc.). In contrast, Johansen (2013) argues that although the level of female entrepreneurship appears to be on the rise in many countries, women entrepreneurs are still underrepresented compared to male entrepreneurs (Minitti et al. 2005 as cited in Johansen, 2013; Brush et al., 2012). In general, women-owned businesses are of smaller size than male-owned businesses, women possess less business experience than men, their businesses are usually undercapitalized, and their business growth is slower (Tsyganova and Shirakova, 2010; Fleck et al., 2011). Several factors or barriers account for disparities between male and female entrepreneurial activities. A first set of barriers includes difficulties in obtaining institutional support, family support and/or securing financing. Lack of support seems to be a significantly greater problem for women than for men (Heilman and Chen, 2003; Shinnar et al., 2012).

### **Barriers to Business Activity**

The financing of new business projects is a logical problem for all starting companies, and respondents describe it as one of the most significant barriers to doing business (63%). They identify with the claim that they neither have the funds to start doing business nor are aware of how to obtain them. Obtaining outside (bank) sources for an entirely new company is practically impossible in reality. This is also confirmed by the results of the GEM analysis, according to which "The biggest problem affecting newly launched companies is a lack of financing, followed by bureaucracy and legislative problems. Compared to 2011, the number of entrepreneurs who view poor payment morale among clients as a problem has also increased (11%)." (Report on the Development of SME, 2014). The mentioned analysis describes bureaucracy and legislative problems as serious problems (17%) and states that they have grown since 2011.

However, the lack of financing for starting a business and the complicated approach to it are not barriers only found in the Czech Republic. This is documented, for example, by Kim-Soon et al. (2013) in their paper stating that the first obstacle to the youth participating in entrepreneurship activity is a lack of financial support. The second barrier is that youth are not willing to take risk. They are afraid of failure and cannot stand in the test, will try to avoid exploring new knowledge or ideas to improve their current situation. It is hard for them to compete with other successful entrepreneurs who are daring to break through in the competitive market, Kim-Soon et al. (2013) conclude.

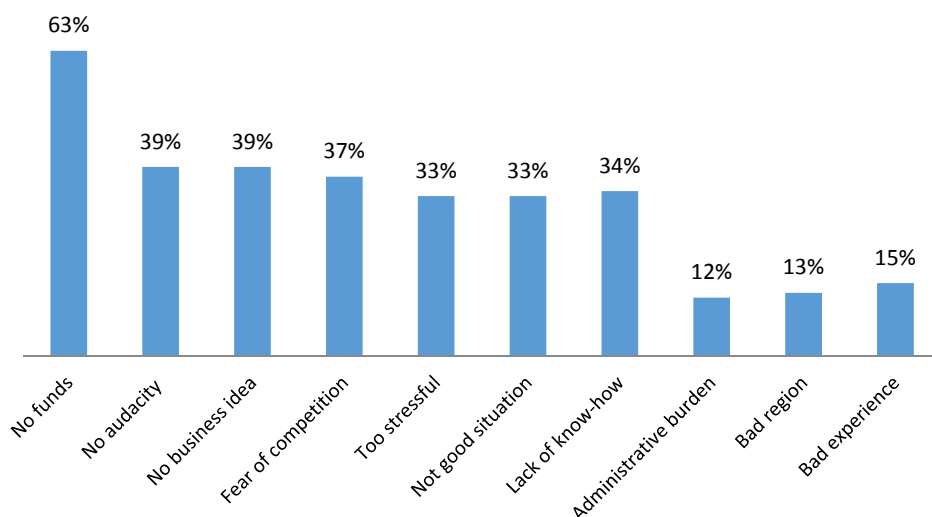
In our conducted survey (Young Business) regarding the young generation's willingness to begin doing business, optimism and faith in doing business differed not only based on the type of education, but regionally as well. Those studying in Prague plan to do business in 28% of cases, and those studying outside of Prague plan to do so in 24% of cases. The GEM analysis of the business environment also entirely corresponds to these



results and states, "Significantly more people with university education are involved in new business activity. New business activity of vocationally trained persons and persons with elementary education remains low. The most significant new business activity is in Prague." (Report on the Development of SME, 2014, p. 57).

As shown in Figure 8.1, a lack of business activities as well as of courage to do business independently is admitted by nearly 39% of respondents from the total number, a group including those with a business focus and those without one. Concerns about competition and potentially being unable to withstand it are another relatively significant factor that acts as a barrier to launching business activity. These concerns are expressed by 37% of respondents. Another cited barrier is the perception of business activity as a stressful endeavour that requires a lot of responsibility (33%), and practically the same number of respondents identify with the statement: "I don't have a clear impression about business, and I don't know where to look for information."

Although doing business is supposed to be the first choice for those who are creative and active and have enough self-confidence and is not necessarily the last choice for tackling unemployment, this position also needs to be taken into consideration from a macroeconomic point of view. Majkova et al. (2014, p. 90) state: "unemployment of young people is a problem in the European Union in general. In 2013, more than 30% of young people under 25 years old were without work – an alarming number. Supporting entrepreneurship is one way to decrease this figure".



**Figure 8.1.** Perceived barriers to starting a business in the Czech Republic

Source: Own study of the authors<sup>4</sup>.

A relatively major barrier in our survey, which reached 15%, is bad experience with

<sup>4</sup> Both authors were directly involved in the survey conducted under the Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic - AMSP CR, 21<sup>st</sup> survey with the title "Podnikání mladých – Young Business" available at <http://www.amspace.cz/21-pruzkum-amspace-cr-podnikani-mladych-young-business>

doing business in respondents' families or among their close associates. A certain role may also be played in this area by the overall general social perception of business activity and to a certain extent even criminalisation of business activity, in relation to statements from government officials mainly from the left-wing of the current group of political leaders in the Czech Republic. The Global Entrepreneurship Monitor (GEM<sup>5</sup>) report mentions the same and states: "The image of entrepreneurs remains very bad, and less than half of our population considers successful entrepreneurs to have a high status. Experts are also very sceptical in this respect. It is necessary to work on creating positive examples." (Report on the Development of SME, 2014, p. 59).

Respondents also perceive the regional point of view as significant, and 13% of them stated that business activity was not progressing well in their regions. This includes especially micro enterprises, and several affecting factors can be mentioned in relation to the situation. Such factors include small businesses disappearing from city and town centres, due to the expansion of competition from supermarkets and trade zones at the peripheries of municipalities. While in large cities this trend is now gradually beginning to reverse in favour of small business infrastructure, this is not happening in regions yet. One of the causes of this situation is the exodus of the younger generation to cities for more perspective and better paid work, which is related to the decline in buying power and servicing of regions, especially in rural areas, and this is becoming a real social problem together with the ageing population.

Surprisingly, only 12% of respondents describe excessive administrative burden as an obstacle to doing business. However, that burden is relatively high in the Czech Republic. According to the annual Paying Taxes study conducted by PricewaterhouseCoopers<sup>6</sup> the Czech Republic has ranked 119th in the ranking of the simplicity of paying taxes (out of 189 researched countries). The survey has indicated that a medium-sized Czech company spends an average of 413 hours processing the agenda and preparing documents related only to tax collection, i.e. not taking into consideration other legislative requirements and communication with authorities.

However, a large number of entrepreneurs, who have been doing business for several years already, have long complained about major administrative burden and frequent changes to legislation. Despite Czech governments having declared reduction of administrative burden, particularly for small enterprises, as a priority, such reduction has not really happened. On the contrary, each year new measures are enshrined in legislation, which entrepreneurs must devote attention to, must implement and must respect. For example, in 2014 the term "unreliable payer" was defined, as a result of which before sending any payment to a supplier a company must always check whether it has ended up in the register of unreliable payers and whether the account to which it should pay has been made public on the website of the tax administration. If these steps are not

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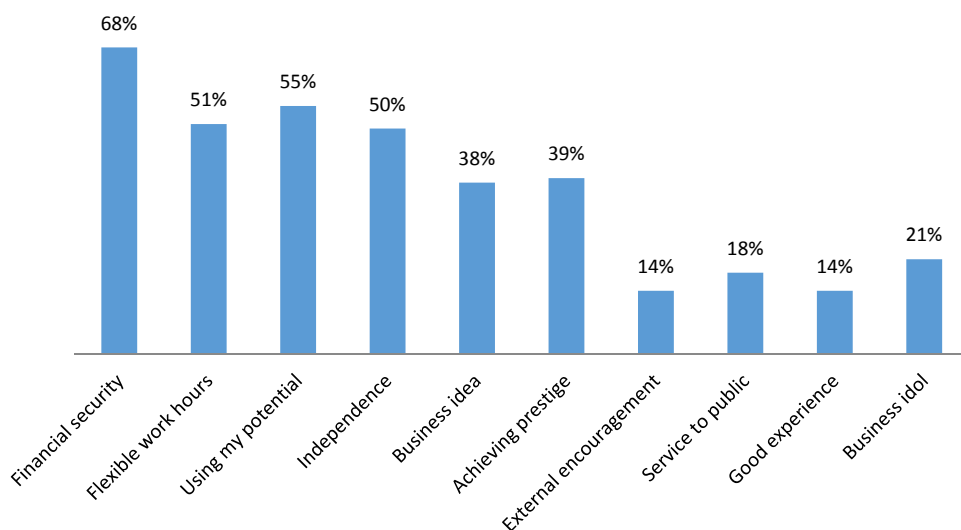
<sup>5</sup> Analysis of business activity within the Global Entrepreneurship Monitor (GEM) international project, conducted in 2013 (available from the Report on Development of SME and their support in 2013, which we refer to as Ministry of Industry and Trade (2014). Report on the Development of SME, 2014 – based on the year of issuance – see the Reference Sheet)

<sup>6</sup> PwC (2015). Paying Taxes 2014: The global picture. A comparison of tax systems in 189 economies worldwide, available from <http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2014.pdf>

taken, the company or entrepreneur risks potentially having to pay VAT again, to the state. This is basically a guarantee for the supplier. In an unprecedented way, the state has transferred the responsibility for ensuring collection of VAT to business entities, and by doing so it has unreasonably burdened them administratively. Foreign investors also have criticised the frequent changes to legislation.

### Motivation for Business

It is apparent from the survey that for those respondents who have a positive stance regarding possible ways of starting their own businesses, the main motivation is financial security and full use of their own skills and potential (See Figure 8.2). In fact, 68% of respondents see doing business as a way to provide financial security to themselves. More than half of those questioned (55%) believe in their skills and their ability to use them, and a major role is also played by the opportunity to manage their own work time (according to 51% of respondents). Independence from others' decisions was also appreciated (by 50%). The motivation for those who view the ability to start a business positively is their confidence in their own business ideas along with an attractive opportunity



**Figure 8.2.** Motivation to become an entrepreneur

Source: Own study of the authors<sup>7</sup>.

to attain a prestigious position and serve as an example for others (39%). This does not entirely correspond to the generally perceived image of entrepreneurs in the Czech Republic. (See the previous chapter.) On the other hand, it is necessary to assume that this

<sup>7</sup> Both authors were directly involved in the survey conducted under the Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic - AMSP CR, 21<sup>st</sup> survey with the title "Podnikání mladých – Young Business" available at <http://www.amspace.cz/21-pruzkum-amspace-cr-podnikani-mladych-young-business>

group is rather optimistic about starting business (of the 776 respondents, 547 were young people), and of them only more than a third view business activity as prestigious, which is evidence of the relatively realistic perception of the world around them in the form of the business environment.

The often repeated opinion that business is "a service to the public" in the sense that it creates jobs, improves local economic situations, etc. can be described as very advanced. That view is shared by 18% of young respondents. Evidence of this is that they perceive the social shift of micro enterprise from the category of filling state coffers to the category of sustainability of regions and/or rural areas.

The other specified motivators already depend to a certain extent on external factors. Hashi and Krsniqi (2011) state in their paper: "It is widely recognised that the external environment plays a crucial part in SME growth." They also stress that the recent line of research investigates the impact of the external environment on growth of small firms. "This literature maintains that while only a proportion of small businesses are growth-oriented, the ability of this group to achieve their growth potential is impeded by the external business environment" (Hashi and Krsniqi, 2011, , pp. 462).

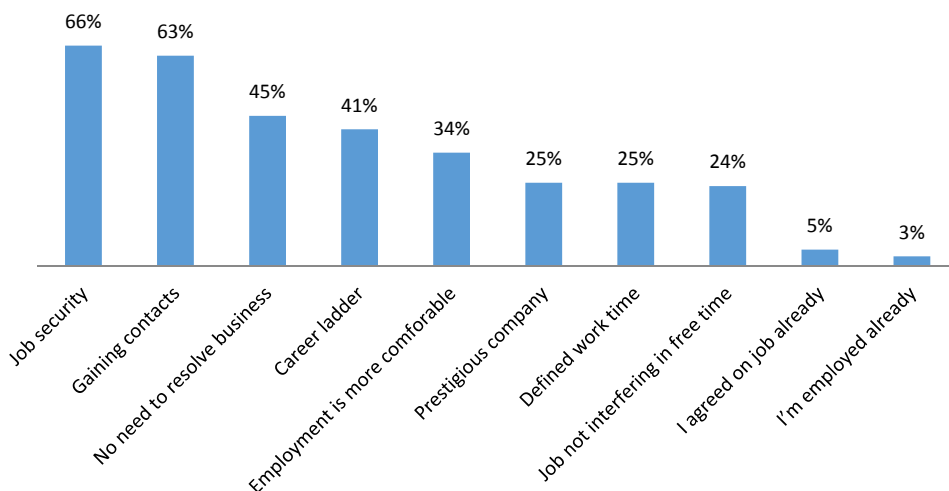
As external motivators for starting business, respondents specified, for example, changes or simplification of legislation, new grant opportunities focused on new business entities (14%), positive experience in families or among friends and peers (14%), and respondents also said they would view it as positive if they could meet with a business role model, who could inspire and influence them. The last named potential motivator even appeared in more than a fifth of the responses (21%). "Storytelling is an important means of communication for young people which allows them to be future leaders and also provides them a vision and new ideas" (Dakoumi and Abdelwahed, 2014, pp. 176). These authors made a study to determine how storytelling can influence the individual's intention, based on Ajzen's theory of planned behaviour. The results "indicate storytelling could be a key point of stimulating entrepreneurial intentions. Furthermore, results indicate that storytelling can play a crucial role to motivate engineering students to be self-employed". Since models and mentoring are proving to be one of the best functioning ways to provide young graduates with enough opportunities for their own development and decisions about the directions of their careers and since surveys indicate their lack, the focus of the education system certainly should be focused on promoting these things.

Nevertheless, it is found that "the main motivators for youth intention to become entrepreneurs are that they need to be really serious to start and own a business. A young person who is not determined enough to be an entrepreneur is unlikely to become one" (Kim-Soon et al, 2013).

### **Motivation for Prioritising Employment Relationships over Entrepreneurship**

As shown in the Figure 8.3, two thirds Two thirds of respondents see in employment relationships job security and continuous income, which for many reasons seems more attractive than their own business activity. Nearly the same number of respondents are basically only postponing decisions about whether to do business, arguing that they give priority to employment relationships first, in order to acquire experience, establish contacts, etc. (63%). Students view as quite advantageous that the employer handles for

them all operational and administrative matters (45%), which is evidence of the tendency of these workers to prefer comfort and their unwillingness to complicate their lives.



**Figure 8.3.** Motivation for prioritising employment relationships over entrepreneurship  
Source: Own study of the authors<sup>8</sup>.

About 41% of respondents see an opportunity for career advancement in employment, which they probably either do not see or see in different dimensions in potential independent business activity. A third (34%) of respondents admit that being employed is significantly more comfortable than doing business. Something quite alarming is the starting trend of reduced desire for success in the younger generation and less willingness to do a lot to achieve it. Approximately a fourth of respondents would especially prefer an exactly set work period, and the same number of young respondents expect their work not to interfere with their free time. There is evidently a realisation that in the case of business these "benefits" are at least initially unachievable.

However, a quarter of these respondents prefer employment relationships due to prospects for work in a prestigious company, which is established and easily recognisable on the market. This understandably conflicts with the philosophy of start-ups.

### Summary of Survey Results

The quantitative survey conducted in the young generation<sup>9</sup> mapped their willingness and their concerns as well as the barriers to starting a business. Although the desire to

<sup>8</sup> Both authors were directly involved in the survey conducted under the Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic - AMSP CR, 21<sup>st</sup> survey with the title "Podnikání mladých – Young Business" available at <http://www.amspace.cz/21-pruzkum-amspace-cr-podnikani-mladych-young-business>

<sup>9</sup> Survey conducted under the Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic - AMSP CR, 21<sup>st</sup> survey with the title "Podnikání mladých – Young Business" available at <http://www.amspace.cz/21-pruzkum-amspace-cr-podnikani-mladych-young-business>

do business has been declining gradually, the students questioned in our survey (Young Business) do not entirely lack it. However, they do not have funds or enough experience to start their own businesses, and therefore after completing studies they prefer to choose employment.

Students mostly do not entirely reject entrepreneurship (the discovered ratio is 547:229), but before they begin business activity they first want to acquire experience, establish contacts and earn money through employment. Business activity was rejected resolutely by 8% of respondents. Although the remainder are not as resolutely against it, not everyone has an exact idea of what their future will be. Moreover, awareness of programmes for starting entrepreneurs is very low (spontaneous and supported), and such awareness is much lower among students of vocational schools than among university students. However, they believe in the benefits of such programmes.

Experience with business activity in their families and/or among their peers could be a barrier (if the family's business is not doing very well), but it can also be a strong motivator for starting a business. The main motivating factor for entrepreneurship is financial security and full use of skills and potential. Contrastingly, the largest obstacle preventing persons from starting businesses is a lack of funds and the perceived unfavourable situation for entrepreneurs in the Czech Republic. Difficulty is also seen in the lack of necessary experience. These students would like to solve this problem in courses and workshops, where they mainly want to establish contacts and get financial advice.

A third of students lack connection of their studies with experience (received mostly by students of vocational schools). They also do not regard as sufficient the information provided by schools regarding business activity and opportunities in regions. They generally view as missing any opportunity to meet with or identify with a business role model, who could inspire or influence respondents. In fact, more than a fifth of responses reflected this view.

The main motivator for employment is job and financial security. Employment is also a place to acquire necessary experience, establish contacts and get an impression of "how to make money doing business". A quarter of respondents view in employment relationships an advantage of having an exactly defined work period and expect their work not to interfere with their free time.

Of students of secondary vocational schools, 21% plan to do business. They have generally specified the fewest motivators and barriers to doing business, and they usually cite a lack of funds, the unfavourable business climate and excessive stress as reasons not to do business. They tend to prefer to stay in the places where they came from.

About 29% of secondary school students plan to do business after completing school, which is a much larger number than among all questioned groups of respondents. This shows that the desire to do business is greatest among secondary school students. The main motivation for them is financial security. More often than others, they have cited the opportunity to attain prestigious positions. They have most often cited major responsibility and stress as barriers to business.

About 23% of university students plan to do business after completing their studies. University students' main barriers include finances, a lack of determination and unclear plans. These students most often want to use their skills and be in charge of their free

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time. They would prefer to be employed in their place of study rather than returning to where they came from.

About 28% of students in the Czech capital Prague plan to do business, compared to 24% of those studying outside of Prague. Students in Prague have more of a desire for (time) independence, full development of their own potential and prestigious positions. As far as regions are concerned, only about a tenth of students who do not have ties to Prague would like to work or do business in the capital city. Students from regions have less determination and fewer business ideas.

For those who reject business activity, the main barrier is a lack of their own determination and the absence of business ideas. Students of vocational schools are more afraid of competition than other students. They are motivated to prefer employment mainly because of the security and comfort that it offers. However, they also view it as an opportunity to gain experience.

## 8.5. CONCLUSIONS

Since 2012, more than 13,121 business entities have disappeared from the market in the Czech Republic. The total number of employees of small and mid-sized enterprises has also fallen, by 92,000 jobs (4.95%). However underestimated SME often are in terms of employment, their share of the total number of employees in the business segment in the Czech Republic in 2013 was 60.9%. However, Bakar et al. (2015) state in their work: "With technology improving day by day, the need for human labour decreases over time, and this is where entrepreneurship comes in. The entrepreneur taking on the challenge of unemployment and providing an occupation for himself and for others by being innovative is the act of entrepreneurship".

Nonetheless, we believe that entrepreneurship should be the first choice for those who are especially capable, rather than the last choice for the unemployed, and this point of view also needs to be taken into consideration when dealing with the macroeconomic situation. The good news is that of the people involved "in new business activity in the Czech Republic, people under the age of 35 make up more than 50% of them, and their share has been increasing since 2006. This corresponds to the opinion of questioned experts, who view better computer skills, language proficiency and experience abroad among young people." (Report on the Development of SME, 2014, p. 57). The business environment is generally mapped by a whole range of studies (GEM<sup>10</sup>, Paying Taxes<sup>11</sup> etc.), to which we refer in this chapter for better understanding of the context of doing business in the Czech Republic. According to the GEM international analysis, the Czech business environment has average business activity (7.33%), with a slightly declining tendency. Both the structure and the roles of individual entities in the business

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<sup>10</sup> Analysis of business activity within the Global Entrepreneurship Monitor (GEM) international project, conducted in 2013 (available from the Report on Development of SME and their support in 2013, which we refer to as the Report on the Development of SME, 2014 – based on the year of issuance – see the Reference Sheet)

<sup>11</sup> PwC (2015). Paying Taxes 2014: The global picture. A comparison of tax systems in 189 economies worldwide, available from <http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2014.pdf>

environment are also changing. The newest trend in this respect is the tendency for newly established trades and micro enterprises to focus more on the consumer market and the service sector, which logically maps the needs of a company in a particular phase of its development.

So far this trend cannot be described as involving a relatively strong increase in the number of female entrepreneurs compared to men, although the statistics from recent months have indicated this phenomenon. However, on the market (in the business environment) there has not been any major change which to a significant extent would weaken the barriers to entrepreneurship and thereby positively affect access to entrepreneurship. One of the causes of the growth could be an effort by mothers to return to work, with them facing the rigid labour code and not many flexible forms of employment that could help them temporarily adapt their professions so far with their new living situations (family, children).

Business activity in the Czech Republic has generally been declining slightly, and the younger generation would prefer to enter into employment relationships. So that we can identify the detailed reasons for this significant characteristic of today's Czech business environment, specifically the low amount of motivation to start business activity, particularly among young people and school graduates, we have conducted a unique survey<sup>12</sup> in cooperation with the Association of Small and Mid-sized Enterprises and Crafts in the Czech Republic<sup>13</sup> among 776 young respondents, which should reveal the main barriers to business activity in the Czech Republic as well as the motivators for it.

According to the survey, students mostly do not entirely reject entrepreneurship (the discovered ratio is 547: 229), but before they begin business activity they first want to acquire experience, establish contacts and earn money through employment. A possible interpretation is that students and/or graduates may give priority to employment immediately after completing their studies as a "transfer station" from which some would switch to entrepreneurship. The results of the survey reveal a general willingness to do business, but also an unclear idea about it, while a small discrepancy can be witnessed in the relatively high tendency to prefer employment relationships. Business activity was rejected resolutely by only 8% of respondents.

A relatively significant characteristic in relation to dependent employment relationships among respondents was their emphasis on comfort and free time and on the fact that an employer takes care of all operational and administrative agendas. Respondents also view the exactly defined work period as an advantage, which is evidenced overall by the tendency of the younger generation to settle for employment and their lower willingness to form and achieve their own objectives. In reality, this is a relatively reflective evaluation of the advantages of an employment relationship compared to entrepreneurship, which, based on individual personalities, is either more or less attractive for each individual. The state's role is to balance out the pros and cons of individual ways of earn-

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<sup>12</sup> Survey conducted under the Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic - AMSP ČR, 21<sup>st</sup> survey with the title "*Podnikání mladých – Young Business*" available at <http://www.amspace.cz/21-pruzkum-amspace-cr-podnikani-mladych-young-business>

<sup>13</sup> AMSP ČR (Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic), [www.amspace.cz](http://www.amspace.cz), influential non-profit non-governmental representative of this segment of companies



ing a living and to convey them appropriately, since all segments have their place and purpose in the country's economy, and it is more than just desirable for them all to work successfully for everyone's benefit.

The most often cited barrier to starting a business is the lack of financing (63% of respondents), which is a logical problem for all starting enterprises. They identify with the claim that they neither have the funds to start doing business nor are aware of how to obtain them. However, the lack of financing for starting a business and the complicated approach to it are not barriers only found in the Czech Republic. The lack of business ideas and of determination to do business independently is admitted by nearly 39% of respondents, and approximately the same number of respondents express concerns about competition and their own ability to withstand it. Another mentioned barrier is the perception of business as a major responsibility and one that involves stress (33%).

A barrier in our survey which should not be overlooked, which reached 15%, is bad experience with doing business in respondents' families or among their close associates. (However, to approximately the same extent it is also a motivator in the event of positive business experience.) A certain role may also be played in this respect by the overall general social perception of entrepreneurship. As GEM states: "The image of entrepreneurs remains very bad, and less than half of our population considers successful entrepreneurs to have a high status." (Report on the Development of SME, 2014, p. 59). Communication with positive business role models is missing, even though their potential identification and even opportunities to meet with them were described by respondents as something that would be a very strong motivator for starting business activity. Since models and mentoring are proving to be one of the best functioning ways to provide young graduates with enough opportunities for their own development and decisions about the directions of their careers and since surveys indicate their lack, the focus of the education system certainly should be focused on promoting these things.

Respondents also perceive the regional point of view as significant, and 13% of them stated that business activity was not progressing well in their regions. This relates in particular to micro enterprises and is causing situations such as the exodus of the younger generation to cities for more perspective and better paid work, which is related to the decline in buying power and servicing of regions, especially in rural areas, and this is becoming a real social problem together with the ageing population.

Since the major barriers to doing business were read by the young generation relatively correctly and realistically, since to a great extent they correspond with studies of the business environment conducted among experienced entrepreneurs, it can be concluded that their easing could revive business activity. Another significant factor would be a community effort at least rhetorically to fill the gaps between individual groups in the business environment, meaning companies, employees and micro enterprises.

The crystallisation of the business environment in this context is also being contributed to by the fact that the role of micro enterprises and entrepreneurship has changed dynamically since the Velvet Revolution in 1989. The primary purpose is not to fulfil the state budget, but is entirely clearly a new direction focused on sustainability of regions, their servicing and community service. However, in relation to the segment we have examined (the young generation), more specifically focused research would be necessary.

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#### ACKNOWLEDGEMENTS AND FINANCIAL DISCLOSURE

This academic text has been affiliated to the project of internal grant agency of VSFS – University of Finance and Administration, Prague, CZ (grant no. IGA 7761 entitled “Current Status of the Business Environment of SMEs and its Development Trends”)

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