

FAMILY BACKGROUND AND FINANCIAL LITERACY AS A PREREQUISITE FOR ENTREPRENEURIAL INTENTION OF UNIVERSITY STUDENTS

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Abstract

University students are young and highly educated individuals with high entrepreneurial potential. Still, there are not many of them who are willing to accomplish their own entrepreneurial ideas. Empirical research shows that the most common causes for termination of entrepreneurial activities are inadequate profitability and insufficient knowledge to run a business venture which makes students' financial literacy extremely important issue. A large scale scientific project was carried out to explore the level of financial literacy and the likelihood of taking risks among the student population in Croatia. This paper presents main results of the quantitative part of the research, as well as detailed analysis of qualitative-based focus group research that was performed in order to examine how the family background can shape an individual's level of financial literacy and entrepreneurial orientation later in life. In the current situation of low level of awareness of financial topics among students and fairly conservative risk attitude of Croatian students, it was found that supportive family background is the cornerstone for the development of future entrepreneurial activities of young individuals. The importance of financial literacy in the context of strengthening youth entrepreneurship and the emphasis of entrepreneurial competencies included in the educational system remains a challenge and opens new research direction for further analysis.

Keywords: entrepreneurship, financial literacy, family background, focus group, risk attitude

JEL classification: D14, G11, L26

Introduction

The promotion of entrepreneurship has become increasingly important in both developed and developing countries as the boost of entrepreneurship and nurturing entrepreneurial traits acts as a driver of countries' competitiveness and economic development. SMEs account for more

than 99% of total EU enterprises population, with micro enterprises contributing to this percentage with 93% (European commission, 2017). Croatian economy is not exception to this trend; it consists of more than 120 thousand business entities and is dominated by micro (up to 10 employees) and small (up to 50 employees) enterprises. Small enterprises account for 98.6% of total number of Croatian companies and employ more than half of all employees in Croatian business sector (FINA, 2018). The importance of small enterprises should be emphasized since the development of SMEs represents the main tool in stimulating the growth of national economy, contributes to business dynamics, sustainable economic growth and generation of new employment opportunities.

The decision to become an entrepreneur is individual-based and subject to several conditions among which the most important being access to resources and available human capital. Practice shows that only a smaller percentage of the working population actually engage in entrepreneurial self-employment. Scholars on the other hand generally argue that entrepreneurial behavior is intentional and can be predicted. Ajzen (1991: 181) defines intentions as "indications of how hard individuals are willing to try, of how much of an effort they are planning to exert, to perform the behaviour". Entrepreneurial intention can be therefore defined as one's willingness to undertake entrepreneurial activity or the intention to start own business. Strong entrepreneurial intention is likely to result with an attempt to start a new business.

Entrepreneurial activity is related to motivation of potential entrepreneurs which might be driven by two main reasons: entrepreneurs either recognize a potential business opportunity or they are forced out by necessity. Starting the entrepreneurial activity motivated by necessity is often related to adults on the labor market who lost their jobs but also to young people who did not yet find their first job and started receiving steady income. Considering the fact that in March 2019, the youth unemployment rate in Croatia was 21.3% while the EU average was 14.5% (Eurostat, 2019), additional encouragement of entrepreneurial activities among young population in Croatia was necessary. The idea of being an entrepreneur motivated by the recognition of business opportunity is still not sufficiently fostered in Croatia, and it is not supported by acquiring sufficient entrepreneurial competences within the regular educational system either. According to the results of GEM study, the world's largest empirical study of entrepreneurial activity, only one-third (33.1%) of adult population in Croatia recognizes business opportunities to start a new business project, while the EU average is 44.2%. Leader in recognition of opportunities is Sweden where 81.6% of Swedes recognize the entrepreneurship as a business opportunity (Singer et al., 2019).

Empirical research shows that the most common causes of termination of entrepreneurial activities are inadequate profitability and insufficient knowledge to run a business venture. Betancourt (2017) stated that entrepreneurial culture and financial education are two fundamental issues for the success of entrepreneurial activities and that understanding financial risks offers greater chances for success in the market. Entrepreneurs with lack of sufficient knowledge on financial issues or those who are overconfident about their knowledge could make poor financial decisions at the beginning of their ventures. Therefore, one of important factors to boost the entrepreneurial skills could be the financial literacy as a prerequisite of responsible financial management behavior in an entrepreneurial activity. Wise financial behavior, as one part of financial literacy, can increase the chances for the entrepreneur's venture attempt to be successful in the market, while impulsive decisions have higher chances of failure.

From the aspect of entrepreneurial finance which considers the amount of financial resources necessary for starting a new business, entrepreneurs are again faced with financial issues. Financial topics and even the process of financing can sometimes be resolved in the family; in that sense past exposure to entrepreneurship in the family could be a good starting point for university students to structure their attitudes to their future entrepreneurial activity and financial decisions. Moreover, research shows that more educated people are at the same time more active in entrepreneurship, especially in the segment of opportunity-based entrepreneurship (Singer et al., 2019). Family experiences and well-designed educational system could encourage young university students to take over the role of entrepreneurs more often than it is currently present.

This paper explores selected factors that might affect the entrepreneurial intention of university students. Entrepreneurial activity is often associated with high risks and unpredictable outcomes. Students' interpretation of term "risk" was researched by an extensive research on financial literacy of Croatian students (Šubi et al., 2019), where research results indicate that 60% of students identify risk as an uncertainty, while only 26% of participants recognize risk as an opportunity and additional 13% of students as an excitement. According to their risk attitude, Croatian students are fairly conservative and it is necessary to examine factors that might have impacted this conservative view which might inhibit entrepreneurial activity in the future. Namely, this paper questions whether the attitude towards entrepreneurship is motivated by the lack of financial knowledge or stems from students' past experiences. Research by Šubi et al. (2019) has shown that two thirds of Croatian students are very interested in expanding their financial knowledge and therefore this paper will contribute to broader understanding of the relationship among financial literacy, family background and entrepreneurship.

Theoretical background

Entrepreneurial intention can be the result of many factors and although it has been empirically tested by many authors, new research might still be valuable (Fayolle & Liñán, 2014). For example, research on entrepreneurial traits has a long history in the United States, but the US have a strong entrepreneurship tradition while cross-cultural studies and studies in non-US cultural, social, and economic contexts regarding this topic are rare (Ozaralli & Rivenburgh, 2016).

University students are young and highly educated individuals with high entrepreneurial potential. Hisrich & Peters (2002) argue that students have mixed feelings about considering entrepreneurship as a career and that very few intend to pursue an entrepreneur career immediately after graduation. In an attempt to modify the attitudes of young people towards entrepreneurship and to encourage entrepreneurial activity most university educational programs nowadays include some form of entrepreneurship education and business plan competitions. Understanding the factors that will motivate students to take risk and choose self-employment may become critical for developing policies and programs that will support entrepreneurial activities.

Comprehensive frameworks have been developed for explaining and predicting entrepreneurial behaviours. According to Ajzen's theory of planned behavior model, society's norms and values are materialized in individuals' understanding of subjective norms, which can be a predictor of intentions to behave in certain ways (Ajzen, 1991). For example, it has been confirmed that having an entrepreneurial student peer group has a positive effect on

students' entrepreneurial intention (Falck, Hebllich & Luedemann, 2012). The understanding of similar social factors that shape students' intentions to start their own business is necessary in order to increase entrepreneurial activity in the future. Students' entrepreneurial intention can also be related to their social and economic status, since research has found higher entrepreneurial intentions among students that faced economic challenges (Kristiansen & Indarti, 2004). It has been confirmed that entrepreneurial intention can be related to established entrepreneurial culture; students in such cultural surroundings had a higher entrepreneurial intention (Boissin et al., 2009). Demographic factors such as sex have been found to impact entrepreneurship intention as well, namely male students were more likely to become entrepreneurs than female students (Plant & Ren, 2010; Nguyen, 2018). Younger individuals showed higher intention for entrepreneurial activity than older students (Israr & Saleem, 2018), implying that individual's age is negatively related to entrepreneurial intention. The decision to start a new venture seems to be influenced by personality traits such as optimism, innovativeness, risk-taking propensity (Ozaralli & Rivenburgh, 2016; Israr & Saleem, 2018) and especially the level of individualism (Falck, Hebllich & Luedemann, 2012).

Family background as a predictor of student entrepreneurial intention has received significant attention. As argued by social cognitive theory, parents act as role models for their children (Bandura, 1986). Role modeling in this case refers to learning by examples rather than from direct experience. In terms of entrepreneurial intention, this means that students with more entrepreneurial oriented parents see them as their initial role models and therefore might show generally more positive attitude towards entrepreneurship. Exposure to entrepreneurship has been found to positively influence entrepreneurial attitudes and behavior by numerous authors (e.g. Hisrich, 1990; Matthews & Moser, 1996; Drennan, Kennedy & Renfrow, 2005; Falck, Hebllich & Luedemann, 2012). Students whose mothers were working as entrepreneurs had significantly more intentions to start a business (Israr & Saleem, 2018). Evidence suggests that family business tradition has a positive effect on student's entrepreneurship orientation, although students with prior entrepreneurial exposure more often choose starting their own business than continuing their family business (Cie lik & van Stel, 2017). Lindquist, Sol and Van Praag (2015) argue that parental entrepreneurship increases the probability of children's entrepreneurship by about 60%. However, the impact of such exposure can depend upon its intensity (Van der Zwan et al., 2013).

Family business experience and the positiveness of such experience is related to perceived desirability of starting a business, although perceived feasibility of starting one's own business is highly dependent upon the positiveness of such experience (Drennan, Kennedy & Renfrow, 2005). Students whose parents were working as entrepreneurs showed a more positive attitude towards risk taking and entrepreneurial orientation (Marques et al., 2018), just as exposure to start-up experiences increases both short and long term entrepreneurial intention. Still, not all previous findings unanimously support the finding that family members owning and running businesses stimulates a high propensity towards entrepreneurship. Such relationship has been shown negative in the research by Marques et al (2012) or insignificant (Nguyen, 2018). As shown earlier by Drennan, Kennedy & Renfrow (2005) positive entrepreneurial orientation can be related to positive family member entrepreneurial experiences, namely those who found a positive view of their family's business experience perceived starting a business as both desirable and feasible.

Family background in terms of parent's education or parent's occupation (Israr & Saleem, 2018) also positively influenced entrepreneurial intention. The research on family background included childhood experiences as well, where difficult childhood experiences are positively

related to perceived desirability and feasibility of starting one's own business (Drennan, Kennedy & Renfrow, 2005). Parents background in terms of immigration from rural to urban areas versus urban origin was not found to influence entrepreneurial intention (Nguyen, 2018).

The importance of examining entrepreneurial intentions has been especially recognized in the Southeastern European countries. In less developed countries, many policy makers and governments see entrepreneurship as a way to stimulate economic development and tackle serious economic and social challenges. A comparative research covering business students from several Southeastern European countries has concluded that in these countries social norms act as an important determinant of entrepreneurial intentions (Rajh et al., 2016). The role of family support has been found to be related directly to entrepreneurial intentions.

Financial literacy is not a commonly researched predictor of entrepreneurship, although its role in entrepreneurial success has been recognized by several authors (e.g. Nunoo & Andoh, 2012; Cossa, Madaleno & Mota, 2018). Huston (2010) tried to define financial literacy as measuring how well an individual can understand and use personal finance-related information. Hence, apart from pure financial knowledge, application of that knowledge is essential. Financial literacy supports the understanding of key financial concepts, namely, markets, investments, economics, budgeting, financial planning, banking basics and possibly enhances entrepreneurial intention. Research literature in the field of financial literacy among young adults has proved that the most important channel through which young people acquire financial knowledge are parents (Lusardi, Mitchell & Curto, 2010). A student-sample based research has confirmed that financial literacy enhances entrepreneurship skills (Suparno & Saptono, 2018). Another research by Oseifuah (2010) indicated that an above average level of financial literacy among young entrepreneurs contributed to their overall entrepreneurship skills, thus, overall, financial literacy can be seen as a moderator of increased entrepreneurial activity.

Methodology of research

In 2018, Catholic University of Croatia has carried out a scientific project *Improving Financial Literacy of Young People with the Aim of Optimizing Risk Exposure and Defining the Factors that Impact the Development of Entrepreneurial Activity*. The main research goal of the project was to determine the level of financial literacy and the likelihood of taking risks among the student population in Croatia. However, this research also aimed at explaining some other outcomes related to financial literacy, such as students' attitudes towards entrepreneurship. The large scale research on financial literacy was divided into two parts - a quantitative and qualitative part. The quantitative part of the research was conducted with a survey questionnaire at seven Croatian universities at the sample of more than 1,700 students. The main results of quantitative research show an insufficient level of financial literacy and a low level of awareness of financial topics among students. The term "financial literacy" is not familiar among the students since almost two thirds of students have stated that the term "financial literacy" is not familiar to them at all.

When it comes to awareness about the importance of financial literacy, research results show that over 70% of research participants rarely or almost never listen or read about finance-related topics. Such results can be explained through the fact that most students still live with their parents who take care of finances, but also the Croatian trend of youth living with their parents often until they are 30 years old or older (Eurostat, 2018). Nevertheless, students show great interest in expanding their financial knowledge. 63% of them agreed that they need

greater knowledge in the field of finance. Furthermore, according to other researches, the financial literacy is crucial for improvement and growth of entrepreneurship (Avlijaš et al., 2014), which creates grounds for researching the relationship between financial literacy and entrepreneurship.

Data collection – qualitative research

Considering that previous research findings indicate that the entrepreneurial initiative in many ways depends on the socio-demographic characteristics of prospective entrepreneurs, a qualitative-based focus group research with students was conducted in order to explore patterns in the family environment in which an individual grows and the level of financial literacy that define interest for entrepreneurial activities.

The data for the qualitative research were collected with the usual procedure for conducting a group interview, at the Laboratory for Psychological Research of the Catholic University of Croatia. The focus groups interviews were recorded by an audiovisual method, along with taking notes of the most important parts in the participant's responses. Each focus group lasted for 54 minutes.

A total of 21 student participated in the study, including 9 female participants and 12 male participants. All participants are students of different study fields and study levels, which was important due to the heterogeneity of students' interests and context. Participating students were contacted by e-mail containing general information about the project and the call for the focus groups. All students gave consent to participate in the qualitative research.

In order to examine how the family background can shape an individual's level of financial literacy and entrepreneurship later in life, it was necessary to divide the participants into two focus groups, according to certain criteria. Therefore, all participants were divided according to the basic criteria of the material income of their own family in which they grew up or still live in. According to such criterion, the focus group has been divided into a group with the participants with above-average income (further in the text "first group") and the group with the participants of average or below average income (further in the text "second group"). This criterion is important because of the comparisons of perceptions and the entrepreneurial propensity of those who come from families with above-average or average and under-average income. Furthermore, in most cases "first group" students come from families that were directly involved in entrepreneurial activities or are in some other ways involved in business.

Focus group interviews had several research goals:

- Examine how often and in what way conversations about finances have been conducted in the family
- Examine what opinion has prevailed over entrepreneurship and entrepreneurs in the family
- Examine what life priorities the family has emphasized
- Define to what extent the family environment has encouraged the ambition and desire to achieve success in business life

Findings

This paper will discuss the difference between the two groups related to Conversations about entrepreneurship in the family and The meaning of business success.

Conversations about entrepreneurship

This section explored to what extent are students familiarized with entrepreneurship in their immediate family. The idea was to examine whether somebody in participant's family has been involved in entrepreneurial activities, how was that process conducted, what has been the family opinion about entrepreneurship in Croatia and Croatian entrepreneurs, and what is the participant's perception of mentioned thematic today. Furthermore, one of the goals was to understand parents' perception of entrepreneurial activity and whether parents have encouraged students to build a career or to find a safe job. Since families of the participants in the first group dominantly have been working in their own companies, the results can be analyzed through the assumption that learning from positive entrepreneurial examples can enhance the entrepreneurial activity of individuals in the future (Fornahl & Brenner, 2003: 54).

Although the participants of the first group were not familiar in detail with the specific process of starting a job and other entrepreneurial activities their parents have initiated, the participants have a positive opinion on entrepreneurship. At the same time, they agree on a positive family attitude toward entrepreneurship in Croatia, and that their parents encourage them to work on their own entrepreneurial ideas after finishing their studies. Participants also express positive views on entrepreneurs in Croatia and used terms such as "inspiration" while talking about this topic. In general, the participants of the first group are more open in terms of thinking about their own independent entrepreneurial attempts. This can be directly connected to the results in the study about the influence of early exposure to family business experience on developing entrepreneurs. The study shows that „role models in entrepreneurial families are important motivators for becoming self-employed“ (Tarling et al., 2016: 745).

Well, they would say positive things about Croatian entrepreneurship. Yes, they approve a good idea when they see it in the media. (B.)

Well, they had a positive opinion about it. I don't know, for example, when I have been daydreaming about my own ideas, my father would say „Go ahead, go... do it, figure it out, accomplish it. (Z.)

However, participants expressed some concerns in the context of entrepreneurship in Croatia. They mostly point out the inefficient bureaucracy and a high perception of corruption that demotivates young people who want to start their own business. Those problems are identified and emphasized in both groups, regardless of their opinion on Croatian entrepreneurship.

When it comes to the entrepreneurial career on the one hand or finding a stable job on the other, the participants of the two groups are dominantly different in their narratives. First group participants agree that parents have been encouraging them to use all opportunities offered in the education process - from projects to travel abroad. This is why they are planning to continue with such activities and build a dynamic career. Therefore, results show that participants of the first group got used to exploring new situations and using all the opportunities given, which could be the answer to the question why are they so open to the challenging situations – such as developing their entrepreneurial ideas. Once more, it is shown that the family background is often crucial for developing and starting the participant's entrepreneurial ideas.

When I started college, I began to travel a lot, I participate in the college projects, European projects... I have been to America, I have used the opportunity to do Erasmus, I have volunteered on conferences (P.)

In the second group, most participants responded positively to the question of entrepreneurial attempts in their family. However, when it comes to describing the process of entrepreneurial experience, the negative perception of entrepreneurship was highlighted. What is particularly negative in the perception of second group participants about entrepreneurship is too much personal responsibility, the question of financial sustainability and bureaucracy. Along with the negative perceptions of entrepreneurship, results show the discouragement of participants to achieve their own entrepreneurial activities and the tendency to seek secure and stable jobs, which is the main difference in comparison to the first group.

The worst jobs are those that you have to carry home. You don't work from 7 a.m. till 3 p.m., but you have to think about it at home, how you can promote other employees. You are at home with your family, but can't relax, because you have many worries and responsibilities. (I.)

My father is his own boss, so he always tries to push me away from it. He doesn't want me to be my own boss because he thinks it's the worst... It's really, very, very hard. It's very exhausting and hard, it's not the work from 9 – 5, it's 0 – 24. (K.)

Besides great responsibility, the second group participants mention the question of financial sustainability in entrepreneurship, which they directly connect to uncertainty. Mentioned results could be analyzed through the constant concern about finances and savings that the family of the second group participants have been emphasized. Such family background is oriented toward the stable and secure job rather than the financially unsustainable entrepreneurship, which is also shown in the narratives of the participants.

I don't find any benefits for young people in this job in the context of income, maybe just in terms of some kind of experience, for example, if they help their parents in the company to learn how it works. In my opinion, if a young person enters this world, there is a minority of them who will earn money and benefit from it. (M.)

Finally, besides the great responsibility and financial (un)sustainability, the only aspect on which participants of both groups strongly agree is the bureaucracy that often makes impossible for young people to accomplish their own entrepreneurial ideas.

I read a few articles where people wrote about restrictive and repressive laws for entrepreneurs in Croatia. If a person manages to achieve some income in Croatia, the country will take a great amount of that money, which is problematic because the entrepreneur can't continue to develop his company. (N.)

Therefore, the second group participants agree on discouraging atmosphere in Croatian society in the context of entrepreneurial activities of young people, which is why there is a tendency in the second group to find a secure job which, as mentioned above, is achieved by education.

Everybody is completely discouraged. I would like to earn money, but I am discouraged from being an entrepreneur. I just don't have any interest or will to do it. I would like to earn money, but I don't want to be an entrepreneur, especially in Croatia. (M.)

For me, it's important to find a secure job so that after a few years I can get a promotion. (L.)

The meaning of a business success

The participants of both groups explained what business success means for them. All participants agree on the importance of satisfaction with their own life and the balance between free time and work. Nevertheless, the participants of the first group emphasized the importance of independent decision-making at work through the concept of being „their own boss“. It is interesting that earlier in the discussion, the participants of the second group stated completely opposite perception on this concept since they stated it is too responsible and stressful. Moreover, the participants of the second group emphasized financial security again, as an indicator of business success.

Well, I think that it's the most important to have secure and stable finances. (K.)

For me, business success is firstly personal satisfaction. And then, of course, a lot of money and giving opportunities for other young people. (J.)

For me, the business success is to be the boss and I will achieve it when people start to recognize me on the street. (L.)

Conclusion

Earlier researches have indicated that entrepreneurial intention can be related to several factors, among which access to both financial resources and knowledge about financial issues can act as a determinant of entrepreneurial success. Additionally, it has been found by many authors that family background can also influence one's decision to start an entrepreneurial activity. This paper contributes to the broader understanding of the relationship among financial literacy, family background and entrepreneurship.

This qualitative research was a continuation of an earlier quantitative research which showed that when it comes to their risk attitude, Croatian students can be described as fairly conservative and such conservative view might inhibit entrepreneurial activity in the future. The qualitative research was conducted to understand if attitudes towards entrepreneurship could be motivated by the lack of financial knowledge or stem from students' past experiences. In order to explore patterns in the family environment in which an individual grows and the level of financial literacy that define interest for entrepreneurial activities, a qualitative-based focus group research with students was conducted. Two focus groups have been formed according to the criteria of the material income of families' students grew up or still live in. Moreover, this mostly corresponded to involvement in entrepreneurial activities (participants with above-average income, "first group", were mostly directly involved in entrepreneurial activities). The family background proved to be crucial in the narration differences of the participants. The dominant differences are detected in every response between two groups, except in the common conclusion about discouraging atmosphere in the Croatian society in the context of youth entrepreneurship. Participants of the first group are more open in terms of thinking about their own independent entrepreneurial attempts. Such finding implies that stable financial and supportive family background can create positive and incentive grounds for future entrepreneurial attempts.

Furthermore, besides participants who have been growing up in the financially secure family background, which are open to entrepreneurship in general, there are participants that have been growing up in the less secure economic conditions. The latter group of participants has a goal to find a secure and stable job rather than developing their own entrepreneurial activities, which they consider „unsustainable" and „unprofitable". It is very worrying because the financial family structure in the Croatian society shows that there is 13.3% of population who live in the families with the low work intensity and 28.5% persons who live in the risk of poverty (CBS, 2016). Both groups of participants agreed on the most severe problems in

Croatia in the context of laws for the young entrepreneurs: the perception of corruption and inefficient bureaucracy. It discourages young people to start their own business and consequently is highly important to continue the research on this topic, due to the scientific contribution, but also with the aim of developing new strategies for encouraging young people in the field of entrepreneurship. Thus, the analyzed results point out the necessity for further quantitative research in the field of the youth entrepreneurial initiatives in Croatia, in order to gather data that can be generalized on the wider population. The importance of financial literacy in the context of youth entrepreneurship and everyday living should also be emphasized in the scientific community, but also in education process in general. Finally, regardless of the background for the entrepreneurial intention among students, improving entrepreneurial skills has to be included in one of the obligatory programs in the educational system. With the aim of reducing potential business failures, entrepreneurial competencies need to be implemented before young people experience negative consequences of undertaking a venture.

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