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EU INTEGRATION THROUGH FINANCIAL LITERACY AND ENTREPRENEURSHIP

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Abstract:
In this paper we present the role of financial literacy and entrepreneurial intention in the EU integration. The purpose of paper is to discuss why financial and entrepreneurship education is necessary. Financial and entrepreneurship education aim at empowering all children and youth, particularly those who are vulnerable and marginalized, by increasing their financial and entrepreneurial capability, enhancing their awareness of social and economic rights and improving their equal access to appropriate financial services so as to build their assets and invest in their own futures. Only by working together – citizens from every EU Member State and their representatives in the EU institutions – we can make the best use of the potentials that a unified Europe offers in order to face, side by side, common challenges posed by today's globalised societies. Explaining financial and entrepreneurship education and their impact on EU citizens, will contribute to the creation of an informed and responsible new generation of EU citizens. In the research part of the paper we present the correlation between financial literacy and entrepreneurial intention.

Keywords: financial literacy, entrepreneurial intention, EU integration, globalization, society, knowledge, education

1. INTRODUCTION

Financial literacy and entrepreneurship appear as extremely relevant to the EU not only today but also in the future. Discussion on EU integration including financial literacy and entrepreneurship is key in the current crisis in both EU and accession countries. Like never before, researchers, public authorities, community groups, industry associations and international organizations develop financial education and entrepreneurship initiatives as key elements in the creation of informed and responsible EU citizens.

In today's world it is important to increase citizens' awareness of financial education and to make it even more accessible. Financial education is not just a must for financial experts and investors. It is just as important, if not even more, for the average individuals and families balancing their budget and saving either for their children's education or their parents' retirement. Besides, more should be learned about the financial education needs of consumers at various stages in their lives, and also how financial education can be designed to best address those needs. It should be important to understand how people can become financially literate or, in other words, have the knowledge, understanding and skills to deal with everyday financial matters and make the right choices for their needs.

Entrepreneurial competencies are specific group of competencies relevant for the implementation of successful entrepreneurship (Mitchelmore & Rowley, 2010). They are associated with the development of small and new businesses, as well as internal corporate initiatives, thus having potential to influence economic performance of business organisations and economy as a whole. Financial literacy, which is actually about understanding the financial products, risks stemming from business initiatives as well as managing the money and financial liabilities, is closely related to entrepreneurial competencies. Research confirms high importance of entrepreneurship education in creating entrepreneurial spirit and developing entrepreneurial competencies. It recognises also significant influences on the emergence of entrepreneurial intentions, as well as on the quality of entrepreneurship and entrepreneurship initiatives (Lans, Hulsink, Baert, & Mulder, 2008).

In the paper we investigate the relationship between financial literacy as one of the entrepreneurship competencies and entrepreneurial intention among students and graduates of master students from one of the higher education institution in Slovenia. In the paper we firstly conceptualise the concepts of financial literacy and entrepreneurial intention, and in the second part of the paper explain the findings of empirical research among the students.

2. THEORETICAL FRAMEWORK

2.1. Financial literacy

European youth are at the core of Europe's future dynamism and prosperity, being an enormous potential for the European integration project. However, 57% of young Europeans feel that they have been marginalised and excluded (European parliament, 2014), thus having worries for their wellbeing. Moreover, OECD research (OECD, 2014) shows that financial literacy in many countries is low, which additionally threatens youngsters' future. In addition, there is no systematic financial education in the several curricula of elementary and secondary schools nor of higher education institutions (non-business/economy studies) across the EU. It comes therefore as mandatory to ensure that all children and youth, particularly those who are vulnerable and marginalized are aware of the financial matters and their impact on their everyday lives, in order to create a responsible and informed new generation of EU citizens.

Lusardi (2013) discussed that across the world, people are being asked to assume more responsibility for their financial well-being. This relates to different periods of peoples life – education period, working period as well as retirement period of the life. Namely, because of changes in the pension landscape, notably a shift from defined benefit to defined contribution type pensions, individuals must determine not only how much to save for retirement but also how to allocate that retirement wealth. This responsibility is paired with financial instruments that are increasingly complex. Rules and terms for credit cards, mortgages, lines of credit and other vehicles for borrowing have changed substantially, often providing more exposure to risk.

The financial literacy covers the basic literacy, consequently the reading and mathematical literacy and is simultaneously its upgrade because it requires more knowledge and skills specifically in the financial field (Mason in Wilson, 2000). Financial literacy is one of the components of financial skills – it is expressed as information about finances, financial trends and as the ability to understand or so to say the expertise of financial products, notions and risks. Financial literate individuals are individuals who have mathematical literacy, can effectively manage with money, know how to manage a credit and debts. They are able to evaluate the need for insurance and protection. They know how to evaluate different kinds of risks and repayments that are connected to different possibilities of saving money and deposits. They also understand wide ethical, social, political and environmental dimensions of finances (Starček and Trunk, 2013).

2.2. Entrepreneurial intention

During the last decades, entrepreneurship has become an important economic and social topic as well as a well-known research topic in the world. Entrepreneurship is becoming a very relevant instrument to promote economic growth and development in different national economies. Entrepreneurial intention can be defined as an indicator of the will to try something or the effort one is prepared to apply to behave in a particular manner (Ajzen, 1991). The intention is defined as cognitive representation of a person's willingness to display certain behaviour (Fayolle et al., 2006).

Ajzen (1991) finds, that intention is determined by attitudes and that these are shaped by exogenous factors such as the situational circumstances. The intention to perform a specific behaviour will depend on the people's attitudes towards certain behaviours (Ajzen, 1991). It is crucial that the purpose is actually carried out because otherwise the intention is not realized. Specific behavioural intention is a function of two cognitive factors, attitudes toward the behaviour and expectations. Two basic psychological theory related to the intentions are reasonable theory of action and the concept of reciprocal determinism. Fishbein & Ajzen (1997) in their reasonable theory of action assume that people generally behave rationally and in interaction with the environment. According to this theory, the factors affecting the motivation for behaviour are (i) the relationship between desirability and availability of objective, (ii) expectations and pressures of the reference group, (iii) the impacts of previous behaviour, and (iv) behavioural control. The two key components by this theory are the inclinations and subjective norms, both of which have an impact on behavioural intentions and our behaviour. The inclinations express our affection or aversion to something, which is strongly influenced by subjective norms containing social component of behaviour (Radovan, 2001). Besides, motivation for action depends also on the individuals' perceptions of their performance (Bandura, 1997).

3. METHODOLOGY/RESEARCH

The purpose of this research is to investigate whether there is a relationship between financial literacy and entrepreneurial intention. We even believe that there is a cause-effect relationship between the both constructs. Besides, the differences between genders and age classes shall be checked as well in the sense of financial literacy and entrepreneurial intention.

For the purpose of the research we designed a questionnaire, which was sent to the students of a business higher education institution (app. 600). Operationalisations of measurement variables reflect validated operationalisations employed in past research with minor modifications (Dermol & Rožman, 2014 and Starček & Trunk, 2013). The questionnaire was prepared using 1ka (an open source application which offers support for web service surveys), and was composed of 21 closed questions. The questionnaire was sent in January 2015. We received 225 completed questionnaires from those asked, from which 183 were suitable for analysis. Hereinafter, the analysis and interpretation of responses are presented.

63% of the questionnaires were completed by female and the rest by male respondents. 28% of the sample were employed and 3% self-employed, 61% having some kind of part time or contractual job, on the other hand 24% of the sample consists of unemployed individuals. The average age of the respondents was about 40 years. The non-response bias was assessed by comparing early respondents to late respondents using chi-square tests of independence (Armstrong and Overton, 1977). No significant differences between the two groups of respondents were found.

We were interested to see what is students level of entrepreneurial intention regards to their level of financial literacy (financial attitudes, financial behaviours, financial knowledge). From the table below we can see that majority of students have very good level of financial literacy 68% of students (125 out of 183) and majority of students also have strong (59 out of 183; 32%) or very strong (42 out of 183; 23%) entrepreneurial intention.

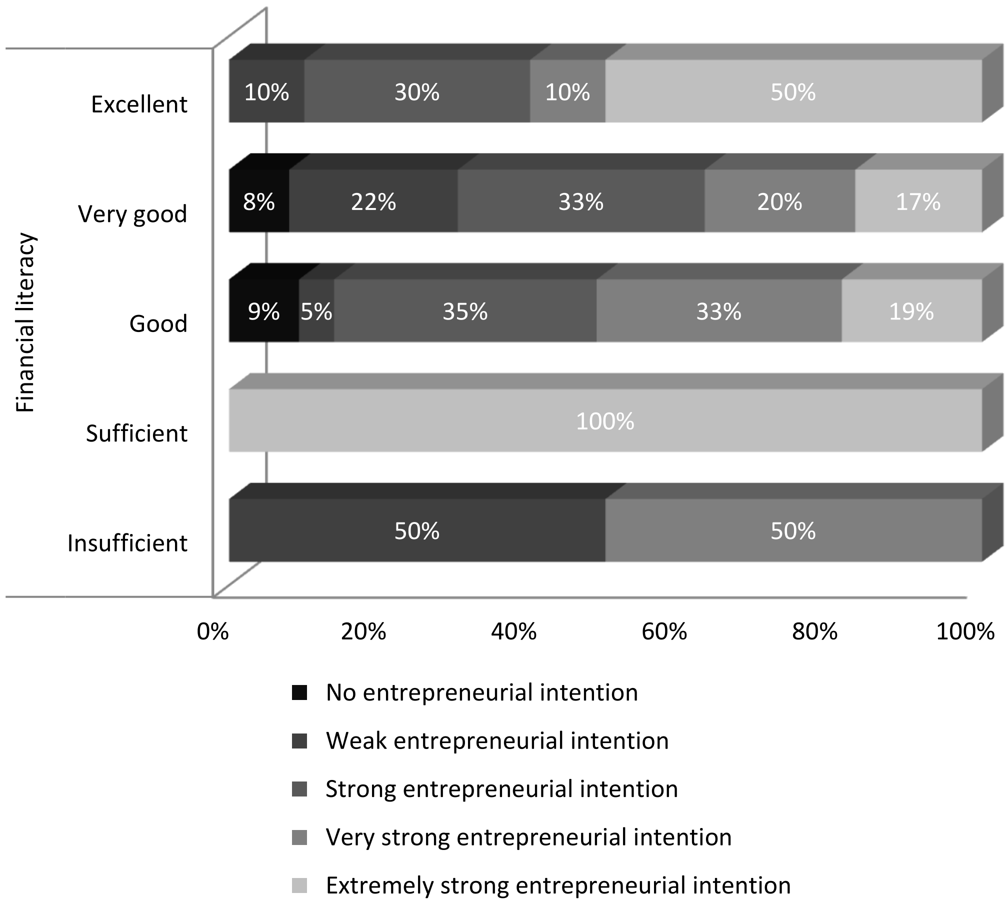
Table 1: Relationship between financial literacy and entrepreneurial intention

	Financial literacy				
	Insufficient	Sufficient	Good	Very good	Excellent
No entrepreneurial intention	0	0	4	10	0
Weak entrepreneurial intention	2	0	2	28	1
Strong entrepreneurial intention	0	0	15	41	3
Very strong entrepreneurial intention	2	0	14	25	1
Extremely strong entrepreneurial intention	0	1	8	21	5

Source: Own calculations

From the picture below we can see extremely strong entrepreneurial intentions have 50% (5 out of 10) of students with excellent level of financial literacy and no students that have extremely strong entrepreneurial intentions have insufficient level of financial literacy. We can see that student with very good level of financial literacy have very different level of entrepreneurial intention: 17% (21 out of 125) have extremely strong entrepreneurial intentions, 20% (25 out of 125) have very strong entrepreneurial intentions, 33% (41 out of 25) have strong entrepreneurial intentions, 22% (28 out of 125) have weak entrepreneurial intentions and 8% (10 out of 125) don’t have entrepreneurial intentions.

Picture 1: Relationship between financial literacy and entrepreneurial intention



Source: Own calculations

We cannot conclude that students with higher level of financial literacy have higher level of entrepreneurial intention and vice versa. For more in-depth analyse about relationship between financial literacy and entrepreneurial intention we run correlation analysis and T-test analysis.

Factor analysis applied on both constructs confirmed unidimensionality of the entrepreneurial intention (INTENT), but, on the other hand, reveal that the financial literacy should be divided into 3 sub-constructs – control over spending (CONTR), inclination to invest money (INVEST), and being informed about financial matters (INFO).

The correlation analysis shows that most of the constructs CONTR and INVEST are not correlated with each other. As the results of the correlation analysis show, there is a weak negative correlation between INFO and CONTR on one side $r(183)=-0.146$, $p<0.05$ and weak positive correlation between INFO and INVEST on the other $r(183)=0.18$, $p<0.05$. It seems that individuals who take full control over their spending do not even try to be informed about prices, interest rates etc., but individuals thinking of investments try to lower their spending by getting information about prices, their spending etc. The data shows that there is no correlation between the constructs of financial literacy (INFO, CONTR, INVEST) and entrepreneurial intention (INTENT).

T-test analysis shows that there are no differences between male and female respondents considering INTENT, but when considering the construct of INVEST the research confirms difference between genders. Male respondents ($M=4.1$, $SD=0.54$) show statistically significant higher inclination to gather financial information than females ($M=3.78$, $SD=0.65$), $t(51)=2.94$, $p=0.005$. We also checked whether there is some kind of dependency on family tradition in entrepreneurship. T-test shows that individuals with entrepreneurs in their family have higher INTENT ($M=3.66$, $SD=1.14$) than individuals who do not have such connections with entrepreneurship ($M=3.2$, $SD=1.14$), $t(70)=2.28$, $p=0.026$, otherwise there are no differences regarding the financial literacy.

4. CONCLUSION

Any person who is running their own enterprise and is accountable for it can be called an entrepreneur. But not all entrepreneurs can be called financially literate. Financial literacy goes beyond just knowing what goes on in the financial world; it is about understanding finance so that effective decisions about the business can be reached (SMBCEO, 2010).

Entrepreneurs have to acquire skills such as financial literacy, which make them more efficient and productive both in life and with their finances. Financial literate individuals are better equipped for taking more effective measures to improve their economic wellbeing. The financial basics like reading balance sheet, credits, budgeting are essential for growing their business or even keeping it afloat.

In the research part of the paper we present, based on a sample of students of a business higher education institution, the correlation between financial literacy and entrepreneurial intention. We can conclude that our data shows no correlation between the constructs of financial literacy and entrepreneurial intention. On the other hand we found out that family tradition has impact on entrepreneurship. T-test shows that individuals with entrepreneurs in their family have higher entrepreneurial intentions than individuals who do not have such connections with entrepreneurship.

In the current times of systemic crisis, overcoming the lack of global awareness and burgeoning scepticism about the EU's assets is likely to become more challenging. Economic hardship is hitting Europeans (especially youngsters) with unprecedented levels of unemployment and risk of social exclusion and poverty. For instance, young people (aged 18 to 29) seem to be losing some of their trust in the European project. Young Europeans feel that they have been marginalized and excluded. For all these reasons is important that young people (including students, young unemployed graduates, vulnerable groups…) are aware of importance financial literacy and entrepreneurship for becoming successful EU citizens and to contribute to development and integration of EU.

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