

## 13. ENTREPRENEURSHIP EDUCATION AND ENTREPRENEURIAL INITIATIVE IN ESTONIA

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### **Abstract**

The article seeks to describe the background of entrepreneurship education in Estonia and evaluate the enterprising spirit of university graduates (Tallinn University of Technology). The article discusses briefly the relationships between the entrepreneurs' educational level and success of enterprises, analyzes the educational and advanced training systems in Estonia, and describes the results of an empirical study on university graduates' entrepreneurship initiative in their own opinion.

The results of the research confirm the great potential of university graduates for increasing entrepreneurship initiative. However, it must be admitted that the curricula of the baccalaureate program are designed so that they merely provide knowledge, but do not motivate people to start a business. The main impediments are connected with the lack of practical experience for starting business, but also lack of business ideas, shortage of capital and risk aversion; the graduates are neither sufficiently aware of nor ready to use entrepreneurship support programs.

## Introduction

Education is the key to shaping popular attitudes towards entrepreneurship in the long term as well as offering access to the knowledge and skills relevant to a developing market economy. This is particularly important in a transition context where, for nearly fifty years, business education and market-related knowledge and skills have been excluded from the curricula. Besides this, accession to the EU increases even more the obligation of the government of the Republic of Estonia to promote entrepreneurial initiative by setting up enterprises and developing small and medium-sized enterprises (SMEs) (Treaty ...; EGEE, 2004), which in turn presupposes the development of entrepreneurship education and training (European Charter ..., 2000). The importance of promoting entrepreneurship education is also supported by the documents adopted in the European Union and Estonia in recent years in order to boost entrepreneurship activity (Green Paper ..., 2003; Enterprising Estonia, 2002).

Several studies have indicated that the educational level of Estonian entrepreneurs is relatively high compared to western countries (Klaamann, 1992; Smallbone *et al.*, 1997). The empirical study from a large-scale telephone survey of 1912 SMEs (2002) showed that slightly over half of the principal owners (both male and female) of Estonian enterprises at the time of the survey had a higher education (Jürgenson *et al.*, 2003). At the same time, there is empirical evidence that entrepreneurs are short of economic, administrative and marketing knowledge, and complain about impediments to getting advanced training for managers and employees (e.g., the cost of training, qualification of trainers) (Jürgenson, 2003). The educational level is no doubt important for the promotion of entrepreneurship activity.

There are many opinions about entrepreneurial initiative in Estonia. It has been claimed that in recent years the rate at which new enterprises get established has dropped in Estonia, even though

the number of enterprises per 1,000 inhabitants (43 in Estonia) is below the respective number (51) of the European Union (Estonia Country ..., 2002). The same source declares that the average size of active enterprises (excluding sole traders) decreased from 22 employees in 1994 to 13 employees per enterprise in 2000 (Estonia Country ..., 2002). This number is twice as high as the EU average, which is 6 employees (European Commission, 2000). However, if we additionally take into account Estonia's sole traders, the average size of enterprises would be almost equal to that in the EU (Venesaar and Teder, 2003).

A study addressing the Estonian population's attitudes towards employment in entrepreneurship and related problems indicated that 29% of people would prefer to work as entrepreneurs, which is much lower than in the European Union on average (47%) (Entrepreneurial ..., 2004). According to the survey, entrepreneurs accounted for 12% of the population but only close to 9% of all employed population (Labour Force Survey, 2003). The number of people who at the time of the survey were thinking about starting an enterprise or were already in the process of starting one was considerably smaller in Estonia (11%) than in the USA (25%), or in the European Union (15%) (Entrepreneurial ..., 2004). This indicates the need for measures to be taken to raise entrepreneurial initiative, among which an important one is the development of entrepreneurial education and training. The first step on this way is to learn to better understand the opinions of young people who have completed formal general education about what they have learned and how it impacts on the development of entrepreneurial initiative.

The current article, proceeding from its aim, begins with an overview of the educational level of Estonian entrepreneurs on the basis of earlier empirical research, and attempts are made to detect the relationships between the entrepreneurs' educational level and the success of their enterprise. Then, a review of entrepreneurship education and advanced training systems in Estonia is provided.

In order to find the interrelationship of business education and entrepreneurial initiative, an empirical study was conducted to evaluate how well prepared the bachelor program graduates of TUT are for starting in business. The opinions of university graduates collected during the research were compared to the survey results of the Estonian population. The article ends with the conclusions of the research results and recommendations for further development of entrepreneurship education.

## **Entrepreneurs' educational level and its relationship with the enterprise's success**

The assessment of entrepreneurial education and training in Estonia is based on empirical evidence from a large-scale telephone survey of 1912 SMEs undertaken in December 2002, which was carried out by a market research company on behalf of the Estonian Ministry of Economic Affairs and Communications. To be eligible for inclusion in the survey, enterprises needed to be independently owned, employ less than 250 and operate in either the secondary or tertiary sector. A stratified random sampling design was used, with the actual results from the sample survey weighted to make them representative of the total population of SMEs in the country<sup>1</sup>.

Slightly over half of the principal owners (both male and female) of Estonian enterprises at the time of the survey had a higher education. Among the rest of the men, owners with general secondary or incomplete higher education, and among women, owners with a vocational secondary-level education were in a slight majority (Table 1). In enterprises with foreign capital participation, the educational level of the principal owner was also slightly higher (54%) than the average level. If we compare the educational level

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<sup>1</sup> The weighting was undertaken in 3 stages, taking into account size categories, fields of activity and regions.

of our entrepreneurs with the international level, it is deemed to be rather high, because, for instance, in the group of high-income countries, 57% of the entrepreneurs had a higher than secondary education and 13% a lower than secondary education. In low-income countries, 23% of the entrepreneurs had a higher than secondary and 50% had a lower than secondary education (Miniti, 2005). Thus, the number of entrepreneurs with a higher education is over twice as high in Estonia as the low-income countries' average (among whom Estonia belongs).

However, our entrepreneurs have insufficient training in business and management. According to the abovementioned survey, in only 11.5% of the enterprises all top and middle managers had a business- or management-related degree from a university, whereas there were differences across groups of enterprises with different characteristics: 11% of the owners of micro-enterprises and nearly 14% of those of small enterprises (10–49 employees), 21% of the owners of foreign capital-owned enterprises, 14% of the owners of Tallinn-based, and 22% of Narva-based enterprises could boast a business or management-related speciality. The same survey shows that 76% of the firms had no manager with a degree in business or management, and in 53% of the firms most managers had not received even a short-term training in business or management, although one-fifth of all the managers had attended long-term (longer than a week) and 34% short (less than a week) courses of business or management (Jürgenson *et al.*, 2003). These indices were much higher in enterprises with foreign capital (48% and 33%, respectively). The managers of medium-sized enterprises (50–249 employees) had participated in training courses less than the overall average. 77% of the surveyed enterprises had plans to train their managers during the next 12 months (choosing from among the answers: yes, definitely; yes, probably), whereas the plans were bigger again in enterprises with foreign capital participation. In terms of location, the indicators were higher in enterprises located in Tallinn and Narva, compared with other major towns and the country's average.

The importance of the entrepreneurs' educational level and training opportunities is also confirmed by an analysis of the activity and growth orientation of enterprises vis-à-vis their entrepreneurs' educational level. The empirical results indicate that firms with owners who have a higher educational level are more numerous among the growing (53%) than the diminishing enterprises (40%). The growing enterprises have also more managers (14%) with a business or management education. Likewise, the need for training their employees was mentioned more frequently than average by the growing enterprises (77%), and 86% of the growing enterprises plan to train their employees during the next 12 months.

In strong correlation are the owners' and managers' educational level and the planning of training, i.e. managers with a higher educational level perceive more than average the need for training their employees. The main limiting factors to training, for example, in the growing enterprises were its high cost, getting temporary replacement for employees taking the courses, and difficulties in finding properly qualified lecturers. In order to provide for employment growth in Estonia in accordance with the objectives, set by the European Union Lisbon Agenda creation of better training opportunities for employees and entrepreneurs should be a priority of the labor and entrepreneurship policies. For that we need to specify the target groups and quality requirements for training, as well as prepare highly qualified lecturers (Estonia Country..., 2002).

## **Overview of entrepreneurship education and Advanced Training Opportunities**

Entrepreneurship education can be examined from a variety of perspectives, including the traditional education system from the primary to the tertiary level, and the system of vocational education. A more specific definition depends largely on the target population.

Entrepreneurship training can be discussed in connection with both the existing body of entrepreneurs and the potential, i.e. start-up or intending-to-start-up entrepreneurs. Potential entrepreneurs are, as a rule, 16–24 years old, mainly with secondary education who are still continuing their studies (Entrepreneurial..., 2004). One of the main obstacles to starting in business is insufficient knowledge. Although in this respect, the potential entrepreneurs in Estonia are more optimistic than the existing ones (Ettevõtlikkuse, 2005), it is assumed that their optimism is mostly naive-romantic, and the actual situation is the opposite. And entrepreneurial initiative as a quality cannot be identified by the mere fact of being an entrepreneur. This is also an attitude to life, which in all circumstances is targeted at taking advantage of all opportunities. A major role in working up attitudes to life, and raising enterprising people is played by the educational system, which should develop and propagate entrepreneurial initiative. Although Estonian (potential) entrepreneurs tend to rely on communication and contacts rather than on their professional knowledge and skills, the role of formal education is quite important for the development of enterprising people and entrepreneurs (Ettevõtlikkuse ..., 2005).

In Estonia, entrepreneurship training began early in the 1990s when three public universities that provided economic education substituted their previous curricula with new, free market economy requirements based ones among whose aims was provision of knowledge about entrepreneurship. At the same time, a number of new private universities and schools of higher learning were founded whose curricula were oriented to business administration and entrepreneurship. While in 1995 there was one private university in Estonia teaching business administration and entrepreneurship (Estonian Business School) with 950 students, and then in 2003 there were already four such universities with approximately six thousand students. The number of other private institutions of higher education providing professional higher education and diploma education in business administration and entrepreneurship

has in the same period grown from four to seven, and the number of students has also doubled (Kõrgharidus, 2004). Additionally, the public universities have established five regional colleges providing professional higher education (the University of Tartu – in Pärnu and Narva, Tallinn University of Technology – in Kuresaare and Tallinn, and the University of Tallinn – in Haapsalu), which focus mainly on teaching business administration and entrepreneurship in the respective regions. Today the number of higher schools and universities providing business administration and entrepreneurship related education in Estonia, which in their halcyon days, i.e. at the beginning of this century, approached thirty, is approximately 20, which meet the country's needs in quantitative terms.

A baccalaureate in business administration can be obtained in nine higher schools and universities on the basis of 12 different programs, and a BA in entrepreneurship in 2 universities on the basis of 2 programs. A master's degree in business administration is conferred by six universities on the basis of nine different programs (4 of them are of the so-called MBA type, or experience-based programs) and an MA in entrepreneurship by one programme. Currently 15.4 thousand students, or 23% of all Estonian students are enrolled in business specialities on different levels at tertiary institutions, which is an awesome figure. The respective numbers in 1995 were 5.1 thousand (19%), and in 1993 – 3.8 thousand (15%). The peak of this boom (26% in 1999), however, is past by now. It can be said that roughly seven thousand out of the current 15.4 thousand students are enrolled on professional higher education, 6.2 thousand on bachelor's degree, and 2.2 thousand on master's degree programs. Students of business and administration account for 31% of all Estonian students in professional higher education, 20% of bachelor's degree students and 31% of all master's degree students. The share of the latter has almost doubled since 1995 (16.4%).

Because of economic considerations and the small size of the market (the studies are not free of charge, there is no government commission for training, training courses are mainly run by commercial enterprises), the programs for business administration and entrepreneurship in Estonian higher schools and universities are almost without exception similar, providing a broad basic education, and having a limited scale of specialization. The real specialization begins on the master's degree level (the 3+2 system), and is confined to the principal subjects of business administration (marketing, accounting, finance, administration, etc.). Although the scale of specialization is not very large, for instance, in business 3+2 programmes at Tallinn University of Technology a total of 200CR, including 60CR on 42CR master's level, the programs can still be regarded as targeted mainly at producing specialists. The curricula contain a total of 14CR of entrepreneurship, including 8CR on the bachelor's level and the role of the subjects targeted at increasing entrepreneurial initiative is minimal. At the same time, the curricula of other areas of education often contain subjects that teach some knowledge of entrepreneurship (e.g., curricula in technical specialities in Tallinn University of Technology), however, not to a very considerable extent, as a rule.

Simultaneously with the development of higher education programs, entrepreneurship training has been included also in the curricula of vocational and general education schools. With some reservations we can say that the curricula of all vocational schools include some business administration or entrepreneurship courses that provide the fundamental knowledge for starting in business. However, admission to the business and administration specialities in vocational education has shrunk from year to year both in absolute and relative terms. In 1995, for example, 2.7 thousand students started to study them, or 21% of all those who started in vocational education, but by 2003, this figure had withered to only 1.9 thousand, or 14%. Apart from the low popularity of vocational education, this indicates the general distress of the vocational education system in Estonia, the reforming of which,

having lasted for nearly a decade, has despite efforts yielded no results.

At the same time, business studies and entrepreneurship are usually not mandatory for Estonian schools; they can be taken as optional subjects. However, the economic subjects (business administration and entrepreneurship) have established a firm position in the curricula of secondary schools and the number of hours they are being taught, currently, as a rule, no more than two hours per day in a school year, is increasing. This is among other things facilitated by increasing publication of special textbooks for schools in Estonia. As a means helping realize entrepreneurial initiative, many Estonian secondary school curricula contain a foreign language, most frequently Business English. Increasingly more used are also programs of vocational counseling and career planning. In some cases, students are able to get some knowledge of business and entrepreneurship through the Junior Achievement Estonia program (JAE) launched in 1992 and recognized by Junior Achievement International in 1999. Entrepreneurship education has been also provided through a variety of programs and activities, such as the Estonian Business Education Program (EBEP in 1993–1996; Phare funding) and others.

Business training courses are provided by 36 consultation and training firms and universities. The number of different training courses is 237. Simultaneously with the relatively high share of business-related and entrepreneurship supporting subjects, the modest share of special entrepreneurship courses in all training courses is noteworthy. Special entrepreneurship training is mostly organized for start-up entrepreneurs, whereas most of these programs are meant for the unemployed. At the same time, most of the managerial training courses are targeted at people employed in medium-sized and large enterprises; the focus on small entrepreneurs is quite rare and the connection of the training courses in this sphere to entrepreneurship and entrepreneurial initiative is not very strong.

Entrepreneurial knowledge and skills are taught to the unemployed in Estonia in the form of advanced training within employment training. To a certain extent, the so-called adaptation training also stimulates entrepreneurial initiative, which among other things is targeted at raising personal employment-related initiative and psychological training. In Estonia, the expenditure on the organization of training accounts approximately for  $\frac{3}{4}$  of all active labor market measures. At the same time, active labor market measures account only for one-fifth of the total expenditure on social protection of the unemployed. In recent years, on average 20–25% of the unemployed have been regularly sent to employment training. However, these figures also include those attending the so-called purely vocational training courses.

In conclusion, in Estonia both business administration and entrepreneurship knowledge can be acquired in different forms of training. But the realization of the possibilities depends on people's personal qualities and natural aptitude for entrepreneurship.

## **Empirical study of entrepreneurial activity and business education**

### **Method and target group**

In order to detect the relationships between entrepreneurial activity and business education we studied how fit the graduates from the bachelor's program at Tallinn University of Technology were to start in business. We questioned 70 bachelor's program graduates in business administration, who accounted for about 80% of the total number of this program graduates this year. For comparison, we asked the opinions of the bachelor's program graduates in logistics (72 graduates) who had 40% of their curriculum in business administration. The students' fitness for starting in business is compared with the entrepreneurial activity of the whole population on the basis of the survey conducted by the Estonian Institute of Economic Research (in 2004).

In order to get an idea about fitness for entrepreneurship, we studied how many graduates had already set up an enterprise or intend to do it. We also asked about their plans as to the entrepreneurship form and time perspectives, and motivation for and hindrance to starting business. Some questions were asked as to whether they have benefited from the speciality learned at school.

## Survey results

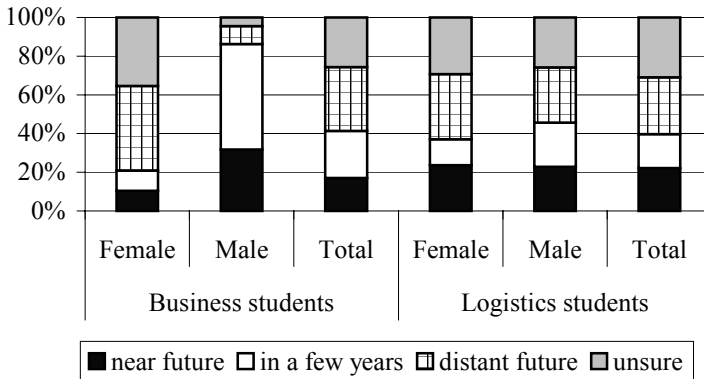
Based on the specific nature of the target group, we can regard most interviewees as potential entrepreneurs both among the business administration (BA) and logistics students. We also regard as potential entrepreneurs those interviewees who were thinking about starting a business or were doing so at the time of the survey. Only 8.8% of the BA graduates and 25% of the logistics graduates had not yet made plans to start a business (Table 1). At the same time, more numerous among the logistics students were those who already had their own firm, or who were setting it up.

Approximately 1/3 of the students want to postpone starting a business to a more distant future. This tendency was especially noticeable among the female students (Figure 1). In comparison with the results of the survey conducted by the Estonian Institute of Economic Research, only 19% of the Estonian young people aged 16–24 were potential entrepreneurs (Entrepreneurial ..., 2004). The respective index for the Estonian population as a whole was 61% (Entrepreneurial ..., 2004).

The main motives for becoming an entrepreneur were: I want more freedom of action to work as I prefer; I have always wanted to be my own master; I want to put myself to the test; and I want to realize an idea or innovation; I want an opportunity to earn more, or earn a very good income, and I want to attain a better position in society (Table 2).

**Table 1.** Have you set up a firm recently, or are you planning to do so? (% of the interviewees)

Answers	Business administration students			Logistics students		
	Female	Male	Total	Female	Male	Total
Never occurred to me	14.6	4.5	8.8	40.0	16.7	25.0
No, but I am thinking about it	70.8	77.3	75.1	35.0	63.9	53.6
No, I was hoping to, but gave up	6.2	13.6	8.8	10.0	–	3.6
Yes, I am starting now	4.2	–	2.9	15.0	8.3	10.7
Yes, I started three years ago and the firm is still operating	–	4.5	1.5	–	11.1	7.1
No, I was an entrepreneur once, but not any more	4.2	–	2.9	–	–	–



**Figure 1.** Expected time for starting business.

Less important motives were implementation of technological innovation and continuing family traditions. Most of those students who already worked were motivated to continue as employees, and only 1/3 were ready to become an entrepreneur if they lost their job.

Over half of the potential entrepreneurs (60.2%) intended to set up or buy their own firm (public or private limited company). Self-proprietorship was much less popular (Table 3).

The impact of the curricula and knowledge obtained on starting a firm indicated that what one has learned in business administration specialities helps most of the interviewees (81.2%) to start their own business, whereas both women and men are of a similar opinion. Students in logistics specialities also find that the knowledge obtained during studies helps most (74.3%) to start a business, but the opinions expressed by men and women are slightly different (Table 4).

**Table 2.** In case you become an entrepreneur, what are your motives? (% of the interviewees)

	Completely agree	Rather agree	Rather not agree	Don't agree	Cannot say
I want more freedom of action	56.1	38.1	5.0	0.8	—
I have always wanted to be my own master	46.0	38.8	11.6	1.4	2.2
By working in my own firm I am more respected	11.5	46.0	24.5	9.4	8.6
I am not satisfied with my work (those who were working)	11.9	25.7	31.7	23.8	6.9
I want to put myself to the test	39.6	51.8	4.2	3.0	1.4
I want to command and motivate others	32.4	40.2	13.6	10.8	3.0
I want to continue family traditions	5.8	20.2	27.3	33.8	12.9
I want to be in the vanguard of technological ideas	12.9	33.8	30.3	12.2	10.8
If I lost my job, I would set up my own firm	11.5	39.6	23.0	8.6	17.3
I want to earn well	41.0	36.7	12.2	2.9	7.2
I want to follow the example of someone I admire	19.4	26.6	35.3	10.1	8.6
I want to attain a better position in society	46.0	36.7	9.4	5.0	2.9
I want to develop my hobby into business	30.2	38.8	18.7	4.4	7.9
I want to implement an idea or innovation	37.4	48.2	6.5	—	7.9

**Table 3.** If you started your own business, which form would you choose? (% of the interviewees)

Answers	Business administration students			Logistics students		
	Females	Males	Total	Females	Males	Total
Self-proprietorship	10.4	12.5	11.1	22.9	13.5	18.1
Set up/buy my own firm (private or public limited company)	62.5	66.7	63.7	45.7	64.9	55.6
Buy participation in a firm (private or public limited company)	10.4	16.7	12.5	14.3	13.5	13.8
Other (not yet specified, family business)	16.7	4.1	12.5	17.1	8.1	12.5

**Table 4.** Will your speciality help you to start your own firm? (% of interviewees)

Answers	Business administration students			Logistics students		
	Females	Males	Total	Females	Males	Total
Yes	81.2	81.0	81.2	67.6	80.6	74.3
No	6.3	4.7	5.8	5.9	–	2.9
Don't know	12.5	14.3	13.0	26.5	19.4	22.8

In the opinion of the students of both specialities the subjects that provide the relevant knowledge for starting a business are as follows: entrepreneurship, various subjects of marketing, business communication, administration, economic accounting, financial accounting, and logistics.

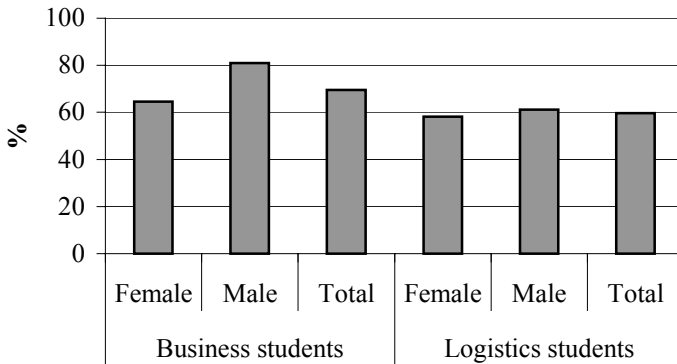
The areas that students want to learn more about, which encourage them to start own firm, are business planning, business law, application of accounting programs, and foreign languages. In addition to these, the insufficient amount of practical studies lack of experience, and the ensuing lack of confidence for starting a business were emphasized. They wish to know better the practical procedure of setting up a firm. These insecurities are typical of bachelor's degree graduates, as the share of special studies that provide more profound knowledge and skills is small at this level. Entrepreneurship advice is needed by all respondents in the first year of start-up.

The entrepreneurial initiative survey results of Estonian people also indicated a need to improve oneself in making a business plan, setting up an enterprise, management, accounting and marketing. They felt shortage of communication and problem settlement skills (Entrepreneurial ..., 2004).

In addition, on the basis of the 2004 Eurobarometer questionnaire, 15% of the responding entrepreneurs felt lack of skills needed by entrepreneurs and 13% felt lack of knowledge, which is consid-

erably higher than by the opinions of entrepreneurs in the old European Union countries (5% and 3%, respectively) (European Commission. *Entrepreneurship ...*, 2004).

The speciality they studied provided knowledge for starting in business, but much less motivation for starting a business, as depicted in Figure 2 below. The reason here is the orientation of the curricula to the preparation of specialists in business administration.



**Figure 2.** Learning and motivation to become an entrepreneur.

Most of the students intended to set up their own firm. Setting up a new firm, however, involves various obstacles and problems. In order to study how students assess these problems, we asked them to rank the listed obstacles and problems in order of importance. For business administration students, the main reasons that restrict starting a business are insufficient motivation and capital, lack of practical experience and absence of a business idea (Table 5). In the first place for logistics students were insufficient knowledge and skills, followed by absence of a business idea and risk aversion.

**Table 5.** Which are the reasons that prevent you from starting a business?

Obstacles	Please rank the reasons by order of importance	
	Business administration students	Logistics students
No practical skills to start in business	3.9	3.30
No business idea	3.9	3.35
Takes too much effort	5.6	6.15
Security of a regular job is lost (the employed)	5.6	4.65
No income from the present job (the employed)	5.5	5.60
Possibility of failure	4.1	3.97
Fear of falling into debt	4.3	5.00
Current economic climate	5.1	6.25
Complicated administrative procedures for setting up an enterprise	5.9	5.15
Poor health	8.9	8.85
Other (e.g., lack of motivation, and capital)	3.7	4.50

Lack of capital was not such a big problem if the students were aware of and knew better the state measures to support entrepreneurship. No one of the respondents has used them; 35.9% of the business administration and 25.8% of the logistics students know them well but have not used; 57.8% and 66.1% respectively have heard something, and 6.3 and 8.1% have heard nothing about them.

It may be concluded therefore that the bulk of TUT graduates have given a thought to setting up an enterprise, encouraged by obtaining a speciality, although entrepreneurship counseling in the early stage is needed by everybody. Of great help in determining the counseling subjects should be learning about the obstacles to setting up an enterprise.

## Conclusions

Knowledge of business administration and entrepreneurship can be obtained in Estonia through different channels of education. Realization of the possibilities, however, depends on people's personal characteristics and willingness to act as an entrepreneur.

The survey of graduates from Tallinn University of Technology in business administration and logistics indicated that:

- The graduates are a big potential for increasing entrepreneurship activity;
- Male students are more active in starting in business, while female students postpone setting up a business into more distant future;
- The main motives for starting a business is the wish to have more freedom of activity and to be one's own master, to earn more, to achieve a better position in society and implement innovations;
- The baccalaureate programs provide more knowledge than create motivation for starting a business;
- The main obstacles to setting up an enterprise are lack of practical skills for starting a business, absence of a business idea, shortage of capital, and risk aversion;
- They are not sufficiently ready to use and know little about entrepreneurship support programs.

To sum up, it may be said that the university programs are typically oriented to the preparation of specialists in business administration. Therefore, tertiary education should pay more attention to the promotion of a more entrepreneurial attitude in students to increase their aptitude and fitness to use every opportunity presented in the market.

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