



## Fostering Entrepreneurship

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Does everyone have an equal chance to become a successful entrepreneur? Are there ways that governments and societies can encourage more successful business leaders like Anita Roddick, Jeff Bezos, Elon Musk, or Weili Dai? The possibilities – and challenges – of fostering entrepreneurial innovation entice policymakers around the world. Good research in this vital area can inform effective policies to promote economic growth and enlarge opportunities.

## Incorporation and Entrepreneurial Talent

Entrepreneurs get important benefits when they decide to incorporate new ventures. The act of incorporation requires meeting minimum capital requirements and accepting a degree of legal oversight, but it allows the entrepreneur to achieve limited liability status and obtain tax benefits – such as more generous expense write-offs. Some economists see incorporation as a sign that an entrepreneur is confident the new venture has strong growth prospects – and there is some evidence for this theory. In both the United States and Scandinavia incorporated ventures have higher rates of job creation and innovation than unincorporated counterparts. They generate more revenue and income for the entrepreneur, and ultimately spark economic growth. Nevertheless, incorporation does not automatically engender success – and sheer numbers of new incorporations do not obviate the need to encourage more would-be entrepreneurs and remove barriers to their efforts to launch high-quality ventures that eventually incorporate.

Our research probes the factors that shape entrepreneurship – asking who is able to incorporate a new venture and who is not. To address this question, my colleagues and I examine the background characteristics that make individuals more or less prone to become entrepreneurs, as well as the barriers that need to be surmounted before ambitious entrepreneurs can succeed.

## What Studies of Siblings Reveal

We begin by assessing family and community backgrounds, to better understand how such factors largely outside a person's control may affect an aspiring entrepreneur's chances. The larger the influence of such factors, the less likely it is that entrepreneurial opportunities are distributed equitably across the population.

By comparing siblings' entrepreneurship choices, we are able to estimate that up to half of a person's decision to become an entrepreneur is attributable to family and community background. Furthermore – notably – decisions to run an incorporated business are much more influenced by background factors than decision simply to become self-employed. In substantial part, this evidence suggests, factors that determine people's ability and likelihood of incorporating a new venture may lie beyond their individual control.

When siblings make similar decisions to become entrepreneurs, why is that? Our results suggest that, for both males and females, learning takes place close to home during adolescence, through exposure to entrepreneurial neighborhoods and parental role models. For instance, having incorporated entrepreneurs as parents substantially raises the likelihood of the child taking that same route for a new venture. Especially at the top of the income distribution, access to parental financial resources also increases the odds that the offspring will incorporate a venture. This effect is stronger for women, who are likely to have greater difficulty in raising capital for their ventures. Leadership skills also strongly affect the decision to incorporate, because that step often involves managing a large workforce.

Are entrepreneurs born or made? This longstanding debate, put differently, ponders whether genes provide a predisposition for entrepreneurship that overrides any learned aspects. Our results suggest that while genes do matter, they have stronger effects for men than for women. Building incorporated ventures involves important social components – which means that smart policy interventions could increase the number of successful entrepreneurs a society produces and ensure a better shot at success for anyone who charts an entrepreneurial course.

## What Policymakers Should Do

Some claim that policymakers should focus solely on encouraging more legal incorporations. But forcing people to incorporate ventures with limited growth prospects is unlikely to promote success. Instead, policymakers should expand opportunities and remove obstacles that stand in the way of people trying to develop business ideas. Our findings suggest several promising levers:

- Because children can learn informally about entrepreneurship, early exposure to successful role models is likely to encourage more people to recognize and take this path.
- Schools and university incubator programs can highlight successful entrepreneurs and recruit teachers and mentors from the ranks of established entrepreneurs, both men and women.
- Entrepreneurial education programs should focus less on academic training and more on equipping aspiring entrepreneurs with necessary tools – both leadership skills and network connections to established entrepreneurs and venture capitalists;
- Government subsidies risk encouraging projects likely to fail, but public measures to equalize access to higher education would allow nascent entrepreneurs to learn to spot opportunities and let them show signs of ability helpful for getting credit or venture capital support. Facilitating educational access can also reduce gender disparities by alleviating many of the systematic barriers that potential female entrepreneurs face.

In sum, our research shows that family and community backgrounds do play a considerable role in channeling access to entrepreneurial skills and resources and encouraging incorporated ventures. These factors cannot be ignored. Yet our evidence also suggests there may be a large subterranean pool of entrepreneurial talent that society could tap into – if more talent is found and nurtured. Finding the female and male entrepreneurs of the future, and smoothing their paths are steps sure to bring important benefits for society as a whole – by boosting overall economic growth and efficiency and enhancing equality of opportunity.

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**Read more in MJ Lindquist, J Sol, CM van Praag, and Theodor Vladasel, "On the Origins of Entrepreneurship: Evidence from Sibling Correlations," *SOFI Working Paper* (7/2017).**