



EUROPEAN POLICY BRIEF



INTERGENERATIONAL TRANSMISSION OF SELF-EMPLOYMENT AND ITS MEDIATING FACTORS THROUGHOUT EUROPE

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1. INTRODUCTION: INTERGENERATIONAL TRANSMISSION OF SELF-EMPLOYMENT

Although the European economic crisis began nearly eight years ago, the continent continues to struggle in its aftermath. The long-term consequences affect some nations and social groups more than others, with one of the clearest lessons from the crisis revealing the particularly vulnerable situation of many young Europeans. While we have witnessed many signs of recovery, the situation of young people in many countries remains critical.

Policy makers and researchers alike are concerned about the alarmingly high numbers of young people who are entirely disconnected from both the labour market and the educational system in many regions (Bell & Blanchflower, 2011). While some countries, such as Germany (7.4%), Austria (8.9%), and the Netherlands (9.7%) enjoy very low, single-digit values close to the optimum, young people looking for employment in other European nations face a rather dismal situation. In 2014, Spain (53.5%), Greece (49.8%), and Croatia (45.5%) had daunting unemployment rates, more than twice the EU average (21.9%; figures from Statista, 2015). Traditionally, these southern European countries have shared many similarities in their economies and labour markets. The “Southern European Employment Model” features, for instance, high shares of small firms and high self-employment (Karamessini, 2008). This type of employment model relies heavily on the transmission of such forms of employment to the next generation.

A large body of literature is dedicated to the transmission process and has identified various channels through which self-employment is passed on from one generation to the next. A classic capital-based view has addressed the obvious paths of capital transmission from parents to children. In addition to financial capital, the importance of human and social capital has been increasingly underscored. A further route of transmission concerns role models. This perspective examines how older generations, in addition to bequeathing various forms of capital, can function

as role models or leaders. Finally, a recent strand of the literature has investigated the biological or genetic origins of entrepreneurship and self-employment.

But what does self-employment have to do with youth unemployment? In addition to being an oft-promoted avenue back into the labour market, high levels of youth unemployment in countries with traditionally high self-employment rates may be signalling a break in the transmission process. Such a disruption may lead to continuing downward trends in self-employment as well as employment in general. This policy brief discusses the factors which have been identified to successfully facilitate the transmission of entrepreneurship and self-employment¹ from one generation to the next. Not only are attributes of individuals and families important for entrepreneurship, but there are also important differences between states that influence the rate of self-employment and entrepreneurship. In other words, what can states do to foster this type of employment? Given the prominence that youth unemployment has on European agendas as well as the European Commission's dedication to promoting self-employment and entrepreneurship as means of creating jobs, identifying the factors that contribute to these types of employment is an important step towards improving the economic situation of Europe's youth.

This policy brief is structured as follows: In the following section we provide an overview of the literature on intergenerational transmission of entrepreneurship. Section three summarizes the insights from a recent comparative study on transmission processes in Europe as well as their mediating factors. We then turn our attention to identifying potential measures to counteract the apparent drop in the intergenerational transmission of entrepreneurship and outline recommendations for policy makers.

2. HOW SELF-EMPLOYMENT IS TRANSMITTED BETWEEN GENERATIONS

Before presenting the findings of the recent comparative study on the intergenerational transmission of self-employment in Europe, we discuss the prominent approaches to the analysis of the process. Generally speaking, intergenerational transmission of self-employment refers to a process in which an older generation influences the employment preferences and aspirations of a younger generation with regard to self-employment.

Many researchers (e.g., Jodl et al., 2001) understand this process as something which occurs only in the nuclear family of parents and their children. Others, however, have found that the extended family can also play a critical role in shaping the younger generations' employment activities. Particularly when looking at family enterprises, family members appear to be highly influential in passing along collectivist values and specialised skills to the next generations (e.g., Laspita et al., 2012).

Children are influenced not only by parental role models but, in many situations, are able to draw on their parents' financial and capital resources. Mulder and Smits (1999) argue that since wealthy parents are able to provide more financial support to their offspring they ensure that their children are able to pursue similar lifestyles in their adult lives. Entrepreneurship researchers have drawn heavily on such approaches. One of the most predominant examples of the alliance between sociologists and economists is the 2003 study "The pervasive effects of family on entrepreneurship: Toward a family embeddedness perspective" by Howard Aldrich, a sociologist, and Jennifer Cliff, an economist. The authors argue in favour of a complete merger of the venture creation process and its outcomes with the family system. In their model, transitions, resources as well as norms and values within a family have a strong impact on the creation of new businesses (Aldrich & Cliff, 2003).

¹ While closely related and frequently used as synonyms, there are important differences between self-employment and entrepreneurship. Self-employment generally refers to people who work for themselves or who are business owners, whereas entrepreneurs tend to be thought of as innovators who must also take on a great deal of risk in terms of ensuring their own entrepreneurial success.

This combination of scientific disciplines established a fertile breeding ground for numerous new approaches to explaining how the intergenerational transmission of self-employment and entrepreneurship takes place. We briefly describe some of the more prominent perspectives—resources, role models, and genetics. While these approaches differ with regard to their foci and the importance they ascribe to the various pathways to entrepreneurship and self-employment, they all agree on the powerful role of the family as the sociological nucleus for the emergence of self-employment and entrepreneurship. Although the critical role of the family is undisputed, the ways in which families influence young people could not be more different.

The resource perspective

The resource perspective is the classic answer in entrepreneurship research to the finding that a greater propensity to engage in self-employment is found in entrepreneurial families. Large empirical studies have demonstrated the significant impact of financial wealth in the parent generation but have found further significant effects regarding the transition of human capital (in the US: Holtz-Eakin, Joulfaian & Rosen, 1992; Dunn & Holtz-Eakin, 2000; in France: Laferrère & McEntee, 1995; Laferrère, 2001; in Canada: Lentz & Laband, 1990). Underlying this empirical evidence is the idea that since an entrepreneur's entry into the market is usually determined by liquidity constraints in the financial market, family wealth is able to push and relax this boundary (e.g., Laferrère & McEntee, 1995). Moreover, experience in the family business is believed to transmit education, information, and social networks. Each of these is associated with an increased likelihood of entering into self-employment in the next generation. Almost all studies in this field suggest strong interactions between the different forms of capital (financial, human, social) that are passed from parents to their children. These combinations of factors are important, as they tend to be associated with one another and their individual effects cannot be completely isolated (e.g., Laferrère, 2001).

The role model perspective

Another important perspective on the origins of self-employment and entrepreneurship centres on the idea that parental role models, and not simply the forms of capital they transfer, increase children's propensity to engage in self-employment. In contrast to the emphasis on resources, scholars focussing on the importance of role models tend to draw from personality-driven entrepreneurial theories. From this perspective, entrepreneurs are thought to have certain personality traits that increase their tendency to pursue this type of employment. These personality traits as well as personal preferences and values are, in turn, shaped by parental role models. Unlike the various forms of capital that the entrepreneurial family may bequeath to younger generations, personality characteristics, values, and preferences, while shaped by the family environment, originate from the individual entrepreneurs themselves. Numerous studies have provided empirical evidence for the claim that the exposure to role models during childhood and adolescence increases the likelihood of self-employment (e.g., Dyer et al., 1994; Carr & Sequeira, 2007; Bosma et al., 2012; Chlosta et al., 2012).

Genetic perspectives

A growing body of evidence shows that much of what makes us who we are has a heritable component. For example, Nicolaou and Shane (2009) developed a compelling model about how genes can affect entrepreneurial activity, both directly and indirectly. For example, while we have yet to discover an "entrepreneur gene", many personality traits have been shown to be largely biological in origin. These traits may in turn affect values or preferences. Although we still have a ways to go in studying the ways in which our biology impacts the likelihood of engaging in self-employment, future research will be tasked with combining the approaches in order to obtain a comprehensive picture of how self-employment and entrepreneurship gets passed through the generations.

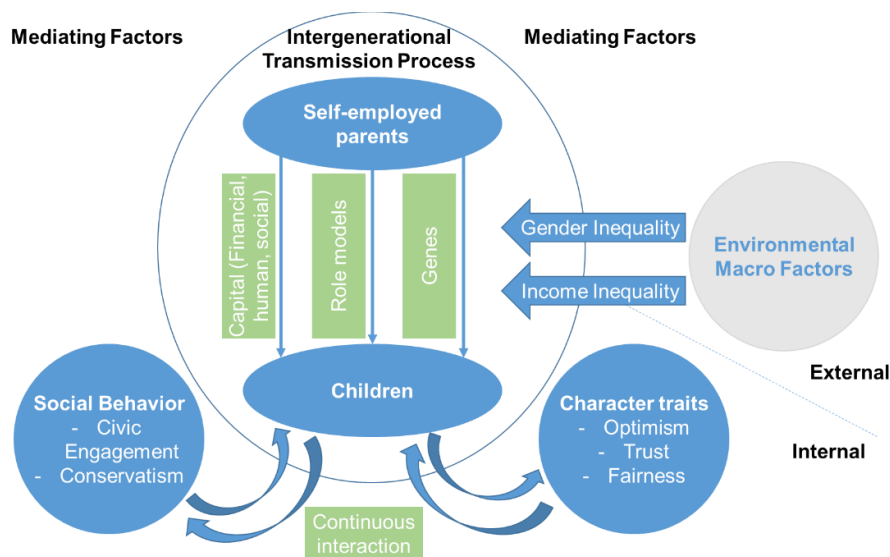
3. COMPARING SELF-EMPLOYMENT IN EUROPE

A recent study² took these individual-centred explanations into consideration and combined them with macro-level data from 29 EU and other adjacent European countries to provide a comprehensive approach to the drivers and determinants of the inheritance of self-employment. The survey data from the 2012 European Social Survey, which allow different transmission theories to be put to the empirical test, provide numerous insights into who is most likely to follow in his or her parents' entrepreneurial footsteps. For example, people who are actively involved in politics, who value safety, who are optimistic, who tend to be more conservative both politically and religiously as well as people who are less in favour of income redistribution are more likely to follow their parents' entrepreneurship. In addition to the aforementioned theories of intergenerational transmission of self-employment, these factors were shown to significantly influence people's decision to uphold the family tradition of entrepreneurship and provide potential leverage for public interventions directed at fostering levels of self-employment. When looking at differences between countries, people are more likely to be self-employed in countries with greater gender equity and where there are greater personal financial benefits to self-employment.

The study suggests that there is a wide variety of influencing factors that mediate the intergenerational effects described in the previous section. In other words, we need to not only account for differences between individuals, but also the socio-political contexts in which they are embedded. The following model summarizes the variety of influential factors and displays the ways in which they may possible interact with one another. While the inner circle represents the process of intergenerational transmission itself with the three channels and perspectives of transmission and its protagonists (the parents and children), the forces outside this circle represent the mediators that were identified in the study.

As a key lesson from the study is that while a large part of the decision to follow parental self-employment during one's career path is formed within the family unit itself, there are numerous intervening and environmental factors that can also shape these employment decisions.

Figure 1: Factor Model of Intergenerational Transmission of Entrepreneurship (own illustration)



² Feldmann, M. M. (2015), *Drivers and Mediators of Intergenerational Transmission of Self-Employment throughout Europe*. Master's Thesis, University of Mannheim.

4. POLICY IMPLICATIONS AND CONCLUDING REMARKS

In summary, the insights from the extant literature and the results of the study suggest that there are numerous aspects which moderate the intergenerational transmission of self-employment. For example, age, active political work, optimism, political conservatism, and living in a country with higher income inequality are all positively associated with the likelihood that children will follow their parents' self-employment paths. Negative correlations are found for women, passive civic engagement, the desire for income redistribution, and living in countries with less gender equality. These mediating influence factors can be divided into external macro- and internal micro-factors. Among the internal factors, we see an influence of attitudes such as fairness and optimism and social behaviours such as like active party and community work. While the mechanisms of intergenerational transmission of self-employment are quite complicated at the individual level, the mediating factors do offer some insight into ways self-employment can be fostered. In closing, we outline a few possible interventions that would appear to foster the intergenerational transmissions of entrepreneurship and self-employment.

- 1) First and foremost, gender inequality requires political attention. The study delivered compelling evidence that countries with lower gender equality tend to exclude half the population from the transmission process. This finding is all the more critical when we consider that transmission of self-employment tends to take place from fathers to son and from mothers to daughters (see e.g., Dunn & Holtz-Eakin, 2000). In other words, by increasing gender equality, we may observe desirable spill-over effects in terms of self-employment. For example, there appears to be potential for supporting young female entrepreneurs and women in self-employment. Targeted action to encourage young women to pursue self-employment or entrepreneurial ideas may be required to overcome initial gender imbalances (e.g., Botha et al., 2006).
- 2) Second, the study found strong effects of income inequality on the intergenerational transmission of self-employment. While increasing income inequality is clearly not a viable option for policy interventions, the correlation raises many questions. The study also suggests that self-employment is negatively associated with the demand for redistribution. Therefore, even countries which we do not generally associate with employment crises or inequality would do well to consider the economic incentives for self-employment. Put another way, we must take into account the ways in which welfare states may serve to foster or hinder self-employment. This particularly applies to southern European economies, which have relied heavily on self-employment in the past, but are struggling under current conditions.
- 3) Lastly, successful intergenerational transmissions are also closely related to certain *soft* factors: Many individuals who follow their parents into self-employment share a sense of optimism and have a particular set of political values. On the one hand, these findings imply that a positive economic situation and political support for self-employed people could foster overall self-employment figures. If given reason to view a self-employed future more optimistically, children from entrepreneurial families could increase the number of venture creations. On the other hand, many inheritors of self-employment share political attitudes and are involved in similar political activities. They tend to be very active in civil society as well as religious communities and tend to hold conservative political attitudes. In other words, in order to encourage nascent entrepreneurs and self-employment, policy makers and stakeholders must figure out ways to reach young people beyond the traditional avenues. Particularly in times of economic hardship, efforts must be made to reach out to vulnerable young people who may not be well embedded into groups, organizations, or communities that provide the networks of support necessary for starting one's own business.

These points are important for policy makers to bear in mind, but must of course be done so in consideration of the specific national context. Certainly, some of these factors will provide chances for public policy to foster the transmission and uptake of self-employment – a form of economic activity identified as having the potential to create new jobs and new opportunities for the young unemployed. These considerations are of particular relevance in countries that continue to struggle with the consequences of the economic crisis and whose young people are having a particularly difficult time gaining an economic foothold.

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FURTHER READING

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