

Rethinking the relationship between age, business acumen and entrepreneurship

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Research shows workers in younger societies gain business skills more quickly, which increases their entrepreneurial abilities. Credit: iStock/nd3000

There's no question the domestic workforce is aging. According to recent data from the Bureau of Labor Statistics, the median age of the U.S. labor force was 42 years in 2016, up from 38 in 1996, and it's projected to keep climbing.

But new research suggests that this trend could hamper business innovation on a long-term basis.

Stanford Graduate School of Business professor Edward Lazear, with coauthors James Liang and Hui Wang from Peking University, find that having too many [older workers](#) in a society can hurt entrepreneurship. Their research appeared in the October 2018 issue of the *Journal of Political Economy*.

Lazear, the Davies Family Professor of Economics and the Morris Arnold and Nona Jean Cox Senior Fellow at the Hoover Institution, said younger societies offer more opportunities for workers to acquire valuable business skills earlier, which leads to greater rates of entrepreneurship.

"Workers in younger countries have more skills relevant for entrepreneurship at every age," he said. "In younger societies, managers obtain the skills necessary to start their own businesses earlier, which leads to more overall business formation."

Diving into the Data

To conduct this research, researchers looked at two main variables: entrepreneurship within countries and median age of workers in those same spots.

To measure entrepreneurship, Lazear and colleagues referenced data from a survey tool dubbed the Global Entrepreneurship Monitor, which ranks entrepreneurship in 82 different countries. To measure age, the researchers called upon basic demographic data of workers within each of the nations in question.

Armed with these two sets of data, researchers cross-referenced them to look at the relationship between age and entrepreneurship or business formation.

This process revealed two main facts: 1) Within any country, [younger people](#) are more likely to branch out and start new businesses than older folks, meaning they are more entrepreneurial; and, 2) overall, younger countries—that is, countries where the median age of workers is younger than others—are more entrepreneurial than old ones.

Central to this philosophy is what Lazear referred to as the "rank effect"—a totem-pole phenomenon that suggests older countries unintentionally keep younger workers in lower positions because older employees stay in higher positions longer, depriving younger folks of learning skills they might need to start their own businesses.

"The whole hypothesis is that the old [people] block

the young [people]," he said. "In younger countries, where even the 'old' are young, there is more opportunity for entrepreneurship overall."

Rank Effect in Action

According to the research, an employee's ability to be entrepreneurial depends on two types of skills. The first is the "advantage of youth," which pertains to the aspects of creativity that peak on the early side of someone's career. These might include novel thinking, frequent ideas, boundless energy, and a willingness to take risks.

The second skill is "business acumen," which describes the professional know-how that one can gain only through experience. Of course, the best acumen comes from being placed in decision-making positions. In "old" countries, promotions into decision-making positions come later than they do in younger countries.

This is where the rank effect comes into play. Lazear points to Brazil and Japan, both large economies. Brazil is one of the youngest of the large economies, with a median age of 26. Japan's median age is 44. The rate of entrepreneurship in Brazil is over five times that of Japan.

In Japan, he said, where the largest portion of managers is in their 50s, younger people can't get the leadership skills they need to eventually branch out on their own. In Brazil, on the other hand, because all employees are younger, those workers who are promoted at an early age get the skills they need to foster entrepreneurship.

"If you live in Japan and you're a 30-year-old, the chances of you getting high enough to learn what it takes to start your own business are pretty slim," Lazear said. "In Brazil, by 30, a larger fraction of workers have advanced to managerial positions—if they haven't already left to start their own companies."

Lazear applied the same thinking to the United States—another relatively young country—and noted that societies that present employees with opportunities to sharpen their business acumen at a young age tend to see more business formation

over time. "The younger you are when you acquire skills, the more likely you'll go someplace else to apply them," says Lazear, who is a founder of the field known as personnel economics. "That's why Silicon Valley had so much business formation. It had all these young people who acquired these tremendous skills quickly, then they left wherever they were, went out, and started businesses of their own."

What Does It Mean for Companies and Workers?

Companies, employees, and countries all can interpret Lazear's findings differently.

At individual companies, the message is clear: Youth begets [entrepreneurship](#) over time. Executives may want to promote deserving younger employees into positions where they can gain [business](#) acumen and spread out-of-the-box thinking from the top. That has value to the firm but carries the risk that the promoted workers will leave to start their own firms.

For employees, the takeaways have to do with choosing the right company. Lazear advised that the best approach for fresh-out-of-biz-school aspiring entrepreneurs is to choose industries that are relatively new, so they can move up the ladder rapidly and acquire leadership skills that will be useful down the road.

"Think about it like going to Oracle 20 years ago versus going to Oracle now," he said. "Twenty years ago, you get in at the bottom and have a good chance of rising quickly. Now it would take you forever just to become a senior manager."

Overall, Lazear noted that countries with earlier retirement ages likely won't face this situation as acutely, because earlier retirements naturally would mitigate the rank effect.

"At the end of the day, it's all about what sort of experiences you're going to get in a position," he said. "Younger environments are quicker to provide the needed entrepreneurial skills to those who want to start their own businesses."

More information: James Liang et al.
Demographics and Entrepreneurship, *Journal of Political Economy* (2018). [DOI: 10.1086/698750](https://doi.org/10.1086/698750)

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