

Early-Life Family Disruption and Entrepreneurship

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Many of today's well-known entrepreneurs have experienced parental divorce during their childhood. Take Elon Musk as an example, whose parents got divorced when he was 10 years old, or Jeff Bezos who got adopted by his stepfather at age 4 after having lived in a divorced family during his first years of life. We increasingly hear claims that having lived through difficult times in childhood makes people great entrepreneurs. After all, entrepreneurs who lived through challenging situations during childhood had to learn to persevere and adapt at an early stage in their lives—capabilities that are certainly useful in the challenging world of entrepreneurship. But is this the full story? Does growing up in a divorced family really increase your chances of becoming an entrepreneur, and even a more successful one? And should investors bet on entrepreneurs who experienced parental divorce in their childhood?

Granted, growing up in a divorced family can make people particularly attracted to entrepreneurship in adulthood. Weakening relationships to parents and a less structured environment at home can inhibit children's learning of social norms and socially desirable behavior. This can make it difficult to later fit into the tightly structured and rigid environment of paid employment. Entrepreneurship thus becomes a haven of freedom and autonomy, allowing to set own rules and to choose freely whom to work with. At a first glance, entrepreneurship thus seems to be a good fit for those whose parents got divorced during their childhood.

However, there is also a dark side. Research on the long-term effects of parental divorce on children has observed that growing up in a divorced family often affects children's educational pathway. Children can be distracted from school and tend to experience a decrease in support or supervision from their parents, often resulting in poorer learning and lower educational achievement. Ultimately, this can make it harder for them to acquire the skills and knowledge that are needed to succeed as entrepreneurs later in their life.

Our team studied individuals from the United States whose parents got divorced during their childhood to shed light on the long-term effects of parental divorce on children's later entrepreneurial activity.¹ Indeed, we found that this childhood event made them more likely to become entrepreneurs later in adulthood.

¹ This study is a joint research project with Prof. Josh Hsueh, Prof. Isabella Hatak, and Prof. Thomas Zellweger, University of St. Gallen, Switzerland.

They chose to become entrepreneurs partly because of social non-conformity: they more frequently engaged in illicit activities, had more difficulties in building stable relationships, and also changed their jobs more frequently than people from intact families. Being socially less conforming ultimately made them more inclined to choose the free and unconstrained environment of self-employment over paid employment.

Parental divorce thus seems to drive people into entrepreneurship, but does it also turn them into more successful entrepreneurs? When we examined the entrepreneurial performance of those who chose an entrepreneurial career, we found an intriguing pattern: Entrepreneurs from highly educated families earned considerably less income from their self-employment if they had experienced parental divorce in childhood. In contrast, entrepreneurs from very low educated families seemed to benefit from this early-life challenge as they later earned comparatively more income from their self-employment.

Whether or not parental divorce makes you a better entrepreneur thus seems to depend on your family background—but why? Socio-economic inheritance may be the answer. Children tend to inherit the socio-economic status from their parents, meaning that parents' divorce can throw children from privileged families off their promising educational pathway. In other words, they may struggle to acquire the skills and knowledge that would otherwise have made them successful entrepreneurs. In contrast, children from less privileged backgrounds seem to have less to lose and more to win from the divorce. Even without parents' divorce, they often already face significant hurdles in their educational pathway due to their constrained socio-economic situation. Parents' divorce therefore bears less downside risk—and may even allow them to excel as entrepreneurs due to the resilience and independence they had to develop when adapting to their parents' divorce.

Parental divorce thus seems to be a double-edged sword when it comes to entrepreneurship: An asset for entrepreneurs from less privileged family backgrounds, but a disadvantage for entrepreneurs from well-educated, privileged families. For people from privileged socio-economic backgrounds this holds a bitter message. Parental divorce may make them particularly attracted to entrepreneurship, but at the same time seems to render them less successful as entrepreneurs.

Does the experience of parental divorce during childhood make you an entrepreneur? Yes. Does it make you a *successful* entrepreneur? Not necessarily. This points to an important role of policy-makers and educators: By supporting

children from divorced families and single-parent households, they can help affected children stay on track with their educational pathway and enable them to acquire the necessary skills to later become a successful entrepreneur. The potential disadvantages of parental divorce are therefore not set in stone and can be overcome—making the dark side of parental divorce not so dark after all.

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