

Learning Entrepreneurship From Other Entrepreneurs?*

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PRELIMINARY

Abstract

We document that individuals who grew in provinces with a high density of firms are more likely when adult to choose an entrepreneurial job, even accounting for the density of firms in their current location. Conditional on becoming entrepreneurs, people exposed in youth to an environment dense of firms tend to earn higher income from business and manage more productive firms even after factoring in any spillover from facing today an environment rich of entrepreneurs. Indeed, density at entrepreneur's young age is more important than current density for firm performance. These results are not driven by firms density capturing better access to external finance as they survive controlling for local financial development, currently and at young entrepreneurs age. They are instead consistent with entrepreneurial capabilities being at least partly learnable and learnability being a social process. Consistent with this interpretation we find that entrepreneurs that at the age of 18 lived in areas with a higher firm density tend to adopt later in life better managerial practices which correlate with firms productivity.

Key Words: Entrepreneurship, learning, spillovers.

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1 Introduction

Who becomes an entrepreneur? The answer economists give to this question is that individuals choose their occupation by comparing the costs and benefits of alternative jobs. In the classical Lucas (1978)/Rosen (1982) model of occupational choice, individuals with greater managerial skills - defined as the ability to extract output from a given combination of capital and labor - will sort into entrepreneurship because the return from managing a firm exceeds the wage they can earn working as employees. While entrepreneurial skills can be interpreted more broadly to include, for instance, the ability to manage (and stand) risk and that of identifying and assessing the economic potential of a new product or process, it is unclear how people obtain these skills. Are they innate characteristics or are instead acquired through learning? And if so, how?

Distinguishing between these two sources of entrepreneurial skills is of practical importance. If entrepreneurial ability is innate, then its distribution should not differ substantially across populations and much of the observed differences in entrepreneurship across countries or regions within countries should be traced to factors that facilitate or discourage people with entrepreneurial abilities to set up a firm - such as the availability of capital. Fostering entrepreneurship then requires removing these obstacles. If instead managerial abilities can be acquired through learning, differences in entrepreneurship can partly reflect differences in learning opportunities across countries or regions and the constraints to entrepreneurship are induced by learning frictions. Fostering entrepreneurship requires improving the learning process.

In this paper we investigate whether selection into entrepreneurship and entrepreneurs' success are affected by learning opportunities. While individuals can learn how to become an entrepreneur and how to be a successful one) in a variety of ways (from parents, friends, schools, etc.) and at different stages of their life cycle, we look at one specific channel: learning from one's environment during formative years (adolescence). Arguably, for a young individual growing up in Silicon Valley it should be easier than elsewhere to learn how to set up and run a firm because the high concentration of entrepreneurial activities in the area provides many direct or indirect learning opportunities. We study whether these intuitive predictions receive empirical support. In particular, we test whether firm density in the location where individuals grow up affect the choice of becoming an entrepreneur and the subsequent performance as an entrepreneur.

We study these questions using a variety of data sets. The first is a sample of Italian entrepreneurs actively managing a small incorporated firm (the *Associazione Nazionale*

delle Imprese Assicurate, or ANIA sample). It contains detailed information on the entrepreneur’s place of birth, current location and location at age 18 (which we term the “learning age”), besides a rich set of demographic variables. We match these entrepreneurs with their firms’ balance sheet data and thus obtain measures of firm total factor productivity and sales per worker. This allows us to test one of the implications of the learning ability model: firms’ productivity should be increasing in firm density in the place where the entrepreneur was at learning age, controlling for the current density. Because this dataset only includes entrepreneurs, it cannot be used to test the other implication of the learning model, i.e., that all else equal, learning opportunities should increase the odds of selecting into entrepreneurship. A second dataset we use (the *Survey of Household Income and Wealth*, or SHIW sample) overcomes this problem. SHIW contains data for a representative sample of the Italian population, reporting, for each participant in the survey, type of occupation, demographics (including current place of residence and birth) and data on personal income distinguished by source - such as income from entrepreneurial activity. However, it has no detailed information on the firm these people work for or manage (besides size). Hence, the two dataset nicely complement each other. Finally, to investigate further and more directly which entrepreneurial abilities are learned through exposure to other firms earlier in life, we supplement the ANIA survey with measures of managerial practices collected using the methodology pioneered by Bloom and Van Reenen (2010b). If exposure to a larger set of firms allows one to learn superior managerial practices, then entrepreneur who grew up in high-firm-density locations should rely on better managerial practices.

Consistent with the learning model we find that individuals who grew up in a location with a higher entrepreneurial density are indeed more likely to become entrepreneurs. This result holds independently of whether we use a broader definition of entrepreneur (one that also includes the self-employed) or a narrower one that only features individuals running an incorporated business. Our finding holds while controlling for the firm density in the current location (reflecting thick-market externalities) and also for measures of current access to external finance in the local market where the firm is located and in the location of the entrepreneur at learning age. The effect is sizable: with the broader definition of entrepreneur, one standard deviation increase in ED at learning age increases the change of becoming an entrepreneur by 1.5 percentage points, around 8% of the sample mean.

When we look at variation in performance among entrepreneurs, we find that those who faced a higher firms density at learning age earn a higher income from business and run a larger firm. This finding is consistent with the idea that entrepreneurial abilities

can be acquired and that acquisition occurs through exposure to a richer entrepreneurial environment. A one standard deviation increase in firm density at learning age results in a 8% higher income. Because the SHIW only reports where a person was born and where he currently lives, this result is obtained under the assumption that an individual at learning age was located in the same place where he was born, thus inducing some measurement error in the firms density at learning age.¹ The other sample is free from this problem and in addition allows to retrieve measures of firms productivity. In this sample we find that firms run by entrepreneurs who faced a higher firm density at learning age have currently a higher total factor productivity and higher output per worker. Remarkably, the elasticity of entrepreneurial quality to ED is very close in the two datasets, although the sample and the variables used to measure entrepreneurial it are different.

In our data set there are two reasons why individuals living in a given province were exposed, at learning age, to different learning opportunities. First, they are of different age. Second, they grew up in different places. Hence, identification relies on two sources of variation: (a) differences over time in firm density for people of different age currently living in the same province where they grew up (stayers); (b) cross-province differences in firm density for people of the same age who grew up in a different province from the one they currently live (movers).² As we will show, focusing on the sample of movers addresses a series of endogeneity issues that can arise from the serial correlation in current ED and ED at learning age for entrepreneurs that did not move. Our results are even stronger when focusing on the sample of movers. Finally, the double source of variability also allows us to test for, and disregard, the possibility that our ED indicator is proxying for other potential determinants of entrepreneurship, in particular genetic differences across locations.

The final question we address is which aspects of entrepreneurship are more prone to be learned. Modern literature on entrepreneurship argues that being an entrepreneur requires a variety of skills.³ Classical theories of entrepreneurship stress the role of personal traits, in terms of the ability to innovate (Schumpeter, 1911) and to bear uncertainty and risk (Knight, 1921; Kihlstrom and Laffont, 1979). These features of entrepreneurship have probably an important innate component and is still unclear whether they can be learned. On the other hand, managerial capabilities are more likely to be learned. We therefore test whether entrepreneurs who grew up in high firm-density provinces adopt better managerial

¹This measurement error is likely to be small; from the Ania dataset we calculate that 85% of people born in a given province are still in that province at learning age.

²An Italian province is an administrative unit approximately equivalent to a US county.

³For example, Lazear (2005) shows that MBAs with a more balance set of skills (lower variance in exam grades) are more likely to become entrepreneurs.

practices and develop traits that are traditionally associated with entrepreneurship. We do find some evidence that entrepreneurs who grew up in high firm-density locations adopt better managerial practices, although the effect is not precisely estimated. On the other hand, we find no evidence that exposure to firms at learning age affects the traits that have been traditionally associated with entrepreneurship, such as risk aversion, aversion to ambiguity, self-confidence and optimism. These traits are either learned early in life, possibly within the family (Dohmen et al., 2012), or are innate. We also find no evidence that entrepreneurial density at learning age affects innovation capacity, suggesting that also this key aspect of entrepreneurship is less prone to learning.

The rest of the paper proceeds as follows. In Section 2 we relate our work to the vast literature on entrepreneurship. In Section 3 we lay down a simple model of entrepreneurial choice allowing for learning and obtain two testable predictions: higher learning opportunities shift to the right the initial distribution of entrepreneurial talent and a) increase the chance that an individual becomes an entrepreneur; b) raise the ability of those who select into entrepreneurship. We discuss also how to operationalize opportunities to learn entrepreneurial ability. In Section 4 we discuss our identification strategy and present the data in Section 5. Results are shown in Section 6, first for the SHIW and then for the ANIA sample. Section 7 shows the evidence on managerial practices and traits and Section 8 concludes.

2 Relation to the Literature

There is a vast literature on the determinants of the choice to become an entrepreneur and of entrepreneurial success.⁴ Our approach, relating entrepreneurial outcomes to the entrepreneurial density (*ED* henceforth) of the location where the would-be entrepreneur was living when young, adds to several current debates in entrepreneurship.

First, we contribute to the literature on the determinants of occupational choice. There is clear evidence that offsprings of entrepreneurs are more likely to become entrepreneurs than offsprings of employees. Parker (2009) surveys this literature and distinguishes among five hypotheses: (i) inheritance of the family business; (ii) relaxation of liquidity constraints (iii) learning general entrepreneurial skills (iv) industry- or firm-specific skills, possibly including access to the business network of parents, and (v) correlated preferences between parents and their offspring, possibly enhanced by role modeling. He concludes that the evidence supplies some support for hypotheses (iii), (iv), (v), consistent with the idea that

⁴See Parker (2009) for a comprehensive survey.

entrepreneurship is at least partially transmittable and, possibly, learnable. Of course, intergenerational correlations in occupational choice do not distinguish between the genetic and the social component of parents-offsprings transmission of entrepreneurial attitudes. Some recent work has addressed this issue using twin studies.⁵ Lindquist, Sol, and van Praag (2012) use adoptees to test the role of nature versus nurture in transmitting entrepreneurship. They show that the effect of adoptive parents are twice as large as those of the biological parents. Other twin studies confirm a larger role of “nurture” relative to “nature” in determining the choice to become an entrepreneur (Nicolaou et al., 2008; Zhang et al., 2009; Nicolaou and Shane, 2010). Our work contributes to this literature by showing that not only the family, but also the local economic environment in which a person grows up affects the choice to become an entrepreneur. We show that growing up in a high *ED* area contributes to accumulate entrepreneurial skills, which increases the supply of entrepreneurs.

An alternative channel through which *ED* may affect the supply of entrepreneurs is role modelling: in high *ED* areas individuals may develop a taste for being an entrepreneur. Lindquist, Sol, and van Praag (2012) find that the intergenerational transmission is stronger from a parent to an offspring of the same gender, a fact that they interpret in terms of role modelling. Needless to say, role modelling can also be transmitted through the social environment and could explain our findings on the likelihood of becoming an entrepreneur. However, in itself it cannot explain the higher ability of entrepreneurs who grew up in denser area. If anything, role modelling should encourage relatively less able individuals to become entrepreneurs, thus lowering the average ability of entrepreneurs.

There is also a growing literature that studies the effects of networks on entrepreneurship, reviewed among others in Hoang and Antoncic (2003). Most of this work finds that local networks do help entrepreneurial activity. Michelacci and Silva (2007) attribute to the importance of local networks the fact that entrepreneurs tend to be less mobile than employees. Compared to this work, we show that the *ED* one is exposed to when young remains a significant determinant of entrepreneurial success in adulthood. This holds after controlling for current *ED* and even among movers, for whom the original network is less likely to have an independent effect today. This implies that the network effect is not confined to supplying useful inputs today (knowledge spillovers, information dissemination and thus easier access to credit, customers, inputs) but also contributes to improve the entrepreneurial ability. In fact, its effects survive to being severed from the network itself.

⁵See Sacerdote (2011) for a recent survey.

This idea is confirmed by some recent work on return immigrants, who are more likely than non migrants to start a business even if they have lost access to their original social network while overseas (Wahba and Zenou, 2012).

We also contribute to the vast literature on local externalities (Cingano and Schivardi, 2004; Duranton and Puga, 2004b; Rosenthal and Strange, 2004b). In particular, our approach singles out one specific external effect: learning from others. Within the entrepreneurship literature, Glaeser, Kerr, and Ponzetto (2010) document that area-sectors with lower average initial firm size record higher employment growth in subsequent years. They show that the evidence is consistent with heterogeneity in both entry costs and in the supply of entrepreneurs. We find evidence for the second motive and provide an explanation for it: in areas with more firms to begin with it is easier to accumulate entrepreneurial skills. Giannetti and Simonov (2009) study the correlation between entrepreneurial density at the municipality level and the propensity to become an entrepreneur, finding a positive correlation after accounting for a large set of potentially correlated effects. Differently from us, they correlate entrepreneurial outcomes with current density, rather than density at learning age. Their strategy is therefore unable to separate learning effects from other contemporaneous spillovers.

Methodologically, our approach is related to a small labor/geography literature on wage city premia. Glaeser and Maré (2001) first showed that a fraction of the urban wage premium - the extra wage that workers earn when moving to a city- stays with them when they move back to a rural area. They interpret this as evidence that workers accumulate human capital while in cities. This evidence based on US data has been confirmed and extended by De la Roca and Puga (2013) for Spain and Matano and Naticchioni (2012) for Italy. Compared to these papers, we focus on entrepreneurs and consider a specific period of life in which learning should be particularly important. Moreover, we use ED as indicator of learning opportunities, rather than densely versus sparsely populated areas.

3 Learning, Entrepreneurial Ability and Occupational Choice

In this section we provide a simple analytical framework to analyze the effects of heterogeneity in learning possibilities across locations and then discuss our measure of learning opportunities.

3.1 Modelling Learning Opportunities

We use the occupational choice model of Lucas (1978), as modified by Guiso and Schivardi (2011), to allow for multiple locations and an entry costs. We illustrate the model briefly to derive some empirical predictions and refer the interested reader to Guiso and Schivardi (2011) for details. The economy is comprised of N locations, each with a unit population of workers, who can choose to be employee at the prevailing wage or to become entrepreneur. An entrepreneur combines capital and labor to produce output with a decreasing returns to scale technology and is the residual claimant. That is, entrepreneurial income is:

$$\pi(x) = xg(k, l) - rk - wl - c \quad (1)$$

where x is entrepreneurial ability, k capital, l labor, r the rental price of capital, w the wage and c a fixed entry cost. The rental price and the wage are equalized across locations. Entrepreneurial talent is drawn from a random variable \tilde{x} distributed according to a distribution function $\gamma(x, \lambda_i)$ over the support (\underline{x}, \bar{x}) , $0 \leq \underline{x} < \bar{x} \leq \infty$, with corresponding cumulative distribution function $\Gamma(x, \lambda_i)$, $i = 1, \dots, N$. The parameter λ is a shifter of the distribution of talent. It represents the learning opportunities that characterize each location.⁶ We assume that $\partial\Gamma/\partial\lambda < 0$: λ shifts the probability distribution to the right in the first order stochastic dominance sense. Hence, individuals who grow in a high λ region have a higher entrepreneurial talent.

As in Lucas (1978), the model implies that individuals with ability above a given threshold will become entrepreneurs, as entrepreneurial profits monotonically increase with ability. Given a threshold z , the probability of becoming an entrepreneur is $\text{prob}(x > z) = 1 - \Gamma(z, \lambda)$. Because:

$$\frac{d(1 - \Gamma(z, \lambda))}{d\lambda} = -\frac{\partial\Gamma(z, \lambda)}{\partial\lambda} > 0. \quad (2)$$

equation (2) implies that it is more likely that an individual turns into entrepreneurship in regions with higher λ . This simply states that where there are more learning opportunities, and therefore entrepreneurs are on average more capable, more people will become entrepreneurs.

Implication 1 *The probability that an individual chooses to become an entrepreneur is increasing in λ .*

⁶Of course, λ might be any shifter of the distribution of talents. Distinguishing learning from other possible explanations will be the main task of the empirical analysis.

The average entrepreneurial ability is the expected value of x conditional on being an entrepreneur:

$$E(x|z, \lambda) = \frac{\int_z^{\bar{x}} x\gamma(x, \lambda)dx}{1 - \Gamma(z, \lambda)}. \quad (3)$$

The effect of a change in λ on average entrepreneurial quality is:

$$\frac{dE(x|z, \lambda)}{d\lambda} = \frac{[\int_z^{\bar{x}} x \frac{\partial \gamma}{\partial \lambda} dx - E(x|z, \lambda) \frac{\partial(1-\Gamma(z, \lambda))}{\partial \lambda}]}{(1 - \Gamma(z, \lambda))} \quad (4)$$

The effect of a shift in the ability distribution cannot be signed a priori, as it depends on the distribution function of ability. However, $\frac{dE(x|z, \lambda)}{d\lambda} > 0$ holds for a general family of distributions: the log-concave distributions (Barlow and Proschan, 1975).⁷ This family of distributions includes, among others, the uniform, the normal and the exponential. For such distributions, a positive correlation between the share of entrepreneurs and their average quality will emerge. Guiso and Schivardi (2011) show that this is indeed the case in the data, so that we assume that this condition holds and derive our second implication.

Implication 2 *Average entrepreneurial quality increases in λ .*

It is also immediate to show that the same conclusion holds for any monotone transformation of x . Given that profits are strictly increasing in x , from Implication 2 immediately follows:

Implication 3 *Average entrepreneurial income increase in λ .*

To sum up, a Lucas-type model of occupational choice implies that individuals that can more easily learn entrepreneurial abilities are more likely to opt for an entrepreneurial job and, conditional on doing so, to manage more productive firms and earn higher income.

3.2 Entrepreneurs as Data Points

In order to test these implications we need an operational measure of λ — the opportunities to learn entrepreneurial abilities. For this we assume that individuals growing in different locations also face different learning environments because locations differ in the density of entrepreneurs active at a given moment in time. Individuals who grow up in locations that are rich in firms (and entrepreneurs) have more opportunities to learn from the experiences of other entrepreneurs, as part of their socialization process, compared to

⁷A function $h(x)$ is said to be log-concave if its logarithm $\ln h(x)$ is concave, that is if $h''(x)h(x) - h'(x)^2 \leq 0$.

individuals who grow up in locations lacking entrepreneurs. The idea that individuals acquire entrepreneurial capabilities from interacting and growing up with other entrepreneurs is consistent with a growing literature showing that individual traits, besides being transmitted through parenting, are acquired through socialization (Bisin and Verdier, 2001), in particular through group socialization. Indeed, one strand of literature led by Hurrelmann (1988) and particularly Harris (2011), argues that interactions with peers dominate those with parents in the process of learning and personality formation. Furthermore, because group interactions develop with age and become particularly intense as young individuals start branching off from the restraints of their parents, these theories imply that the acquisition of entrepreneurial capabilities through social learning should peak when young individuals are in their late teen ages. Empirically, we will identify this age around 18 (which we label the “learning age”) and proxy learning opportunities with the density of entrepreneurs in the area where individuals lived at their learning age.

Entrepreneurial density at learning age as a measure of learning opportunities captures the idea that it is easier to listen to/observe directly tales of entrepreneurs’ success and failures and thus learn both what leads to success and how to avoid mistakes that conduce to failure. Our empirical strategy is also consistent with the plausible idea that there are stages of learning through socialization characterized by different contents about what is learned. For our purpose, the formative years – those that define what an individual would like to be and what she can be as an adult – belong in the age bracket 18 (Erikson, 1968). Feedback from other entrepreneurs concerning the content of their work, the requirements to succeed in doing it, the type of life one can expect from selecting an entrepreneurial job, “role modeling”, etc., can be critical at this age. How important it is may depend on the number of learning points an individual is exposed to.

Even if some entrepreneurial traits can be learned, not necessarily all can in the same measure. Entrepreneurial jobs require several ingredients:

- a) the ability to produce ideas, which may have both an innate and a learnable component;
- b) the capital to implement the idea, which can be inherited or can be raised in the market. If capital is raised, one needs to know how to obtain it, how to identify a potential pool of investors and how to sell the idea to them. This capability can be learned, possibly from other entrepreneurs;
- c) ability to stand risk. Twin studies show that bearing risk has a large innate component

but may also have a shared environmental component due to upbringing, albeit small (Cesarini et al., 2009). People’s willingness to bear risk also includes knowledge of how to manage risk when it arises, which can be learned possibly from the experiences of others. This is probably more true when decisions entail uncertainty in the sense of Knight. Uncertainty can be dispelled through learning and knowing how to dispel it helps avoid its main consequence: lead individuals to opt for the uncertainty-free alternative, a job as an employee, when faced with an ambiguous entrepreneurial prospect;

- d) ability to assemble factors of production in an efficient way, which requires organizational skills - the type of skills emphasized in our version of Lucas (1978) model discussed above. While there could be an innate component, this is the type of skill that can arguably most easily be acquired either through socialization or organized learning – such as participation in a MBA program;
- e) finally, entrepreneurial jobs require the ability to put up effort, the persistence to pursue an objective, and (most likely) a positive or optimistic attitude.

Potentially all of these ingredients can be acquired, though not necessarily to the same degree. We take no *a priori* stance on which features that potentially matter for entrepreneurship can be learned early in life, but offer instead some evidence of what is learned by being exposed to a “thicker” entrepreneurial environment.

4 Identifying Learning Effects

Our empirical strategy consists of showing that growing up in an area with higher entrepreneurial learning opportunities (as measured by the number of firms per capita, the variable entrepreneurial density – ED – below) is associated with a higher likelihood of becoming an entrepreneur as well as better entrepreneurial outcomes later in life. We now discuss the main empirical challenges we face in bringing this prediction to the data.

Our empirical framework is based on regressions of the form:⁸

$$Y_{it} = \alpha + \beta ED_{j(i,t_L)t_L} + \gamma ED_{j(i,t)t} + \varepsilon_{it} \quad (5)$$

where Y_{it} is an entrepreneurial outcome for individual i in year t (being an entrepreneur or a measure of entrepreneurial ability/success), $t_L < t$ is the year in which individual i was 18

⁸For notational simplicity we omit the vector of additional controls used in all regressions. These are discussed later.

(the learning age), $ED_{j(i,s)\tau}$ is year τ 's firm per capita in the location j in which individual i was living in year s , and ε_{it} an error term.

The role of current firm density ($ED_{j(i,t)t}$) in this regression is well known from the literature on local externalities and agglomeration economies.⁹ The role of firm density at learning age ($ED_{j(i,t_L)t_L}$) is instead the channel we emphasize in this paper (learning entrepreneurial skills in the early pre-phase of one's professional life) and in our framework it may exist over and above that of $ED_{j(i,t)t}$. Naturally, an empirical challenge is that the effect of $ED_{j(i,t_L)t_L}$ may be hard to identify separately from that of $ED_{j(i,t)t}$ given the persistence in the spatial agglomeration of firms. There are two distinctive features of our approach which give identifying power. First, young-age learning externalities can be distant in the time dimension from current externalities, which is of course especially true for older entrepreneurs. Second, some individuals currently live in locations that are different from those in which they grew up (movers), spatially breaking the link between $ED_{j(i,t_L)t_L}$ and $ED_{j(i,t)t}$. In addition to using the overall sample, we will also run regressions on the sample of movers to provide a more compelling identification of the effect of entrepreneurial learning opportunities on entrepreneurial outcomes.

A more complicated issue is the possibility that unobserved factors that explain an entrepreneur's success also explain a large share of firms in a given area, i.e., $ED_{j(i,t)t}$ is potentially correlated with ε_{it} . For example, a well functioning local financial system might be able to lower entry barriers and at the same time screen the best entrepreneurial projects. Given that $ED_{j(i,t)t}$ is strongly serially correlated, any bias induced by this particular form of endogeneity will transmit also to our effect of interest (the effect of $ED_{j(i,t_L)t_L}$ onto Y_{it}). We do not have instrumental variables that may explain differences in geographical agglomeration of firm and are uncorrelated with unobservable determinants of firm success. Instead, we adopt two empirical strategies to partially address this issue. The first is to have a rich set of controls (including demographics, geographical controls, and controls for both current and past local credit market development), which in principle minimizes the set of unobservables that may potentially be correlated with current firm density. The second is, again, using the sample of movers. If provinces had purely idiosyncratic dynamics in firm density, the endogeneity bias induced by the correlation between $ED_{j(i,t)t}$ and ε_{it} would not "transmit" to the effect of $ED_{j(i,t_L)t_L}$ onto Y_{it} in a sample of movers (because $j(i, t_L) \neq j(i, t)$). However, as we document below, provinces do have a common time dynamics induced by overall economic growth. In other words, ED appears to follow an

⁹For surveys of this literature, see Duranton and Puga (2004a), Rosenthal and Strange (2004a), Moretti (2011).

AR(1) process with drift:

$$ED_{jt} = \mu_t + \rho ED_{jt-1} + \zeta_{jt} \quad (6)$$

where it is assumed that $E(\zeta_{jt}\zeta_{ks}) = 0$ for all $\{j, k\}$ and $\{s, t\}$. For stayers ($j(i, t) = j(i, t_L)$), we are regressing

$$Y_{it} = \alpha + \beta ED_{jt_L} + \gamma ED_{jt} + \varepsilon_{it}$$

and, given (6), ED_{jt_L} will naturally be correlated with ED_{jt} , implying that if $E(\varepsilon_{it}|ED_{jt}) \neq 0$ then also $E(\varepsilon_{it}|ED_{jt_L}) \neq 0$. For movers, however, we will be regressing:

$$Y_{it} = \alpha + \beta ED_{kt_L} + \gamma ED_{jt} + \varepsilon_{it}$$

and ED_{kt_L} and ED_{jt} are correlated only because of aggregate effects (especially recent ones, as farther ones exert diminishing effect as long as $\rho < 1$). In other words,

$$E(\varepsilon_{it}|ED_{jt}, \mu_t, \mu_{t-1}, \dots) \neq 0, \text{ but } E(\varepsilon_{it}|ED_{jt_L}, \mu_t, \mu_{t-1}, \dots) = 0.$$

Controlling for year effects, therefore, breaks the correlation between current firm density and firm density at learning age in the equation for movers. Since our interest centers on identification of β , this is enough to achieve identification. Using movers, however, may introduce a selection bias. For example, movers may be more risk tolerant and risk tolerance also explains selection into entrepreneurship. For this reason, we use a Heckman probit selection model where we use the spouse's place of birth as an exclusion restriction.

There is still a set of potential unobserved effects that might threaten our identification even in the sample of movers. There might be variables that determine both ED at learning age and persistently affect the propensity to become an entrepreneur and entrepreneurial ability, even after one moves from the learning age location. For example, differences in genetic endowments,¹⁰ in culture or in the quality of the school system might both determine heterogeneity across location in ED at learning age and individual entrepreneurial outcomes later in life. Following Max Weber's theory, in certain areas entrepreneurship might be regarded as a particularly appealing occupational choice, and entrepreneurial success as a highly regarded outcome. Because culture is persistent, an individual that grew up in a

¹⁰A recent literature documents genetic influences in occupational choices at the individual level. In a recent contribution using twins Lindquist, Sol, and van Praag (2012) conclude that at most 40% of the variation in entrepreneurship is explained by genes. This literature focusses on heterogeneity across individuals within a population: this may be very different from systematic differences in entrepreneurship across populations according to genetic distance.

high ED area might be both more likely to become an entrepreneur and exert more effort in entrepreneurship as a reflection of the culture of the place where he grew up. This story would give rise to the same type of correlation implied by the learning story and would be robust to the movers specification. A similar reasoning applies to genetic differences across people belonging to different communities, and because genetic endowment moves, as much as culture, with the individual, reliance on movers is not enough to tell the genetic and the learning story apart.

To address the culture and genetic issues we exploit the different frequencies and geographical reach at which learning entrepreneurial abilities from entrepreneurial density, on the one hand, and culture and genetics evolve. In fact, we will show that ED has changed substantially over the sample period even after netting out aggregate time effects, giving rise to non trivial within-location time series variation. Culture (Williamson, 2000) and genetics (Cavalli Sforza and Bodmer, 1971), are instead processes that are likely to move at very low frequencies; furthermore, while learning is clearly very local, culture and genetics usually span broader geographical areas. Hence, they can be accounted for by broader geographical controls than those that define variation in entrepreneurial density. Stated differently, if fixed local attributes are important, then $E(\varepsilon_{it}|ED_{jtL}) \neq 0$, while $E(\varepsilon_{it}|ED_{jtL}, Geo_s) = 0$, where Geo_s are detailed geographical dummies both for the current and the learning age location. Therefore, by comparing our estimates as we vary the number of spatial dummies making them finer, we will be able to assess the likelihood that fixed local attributes are a threat to identification.

The other potential confounding factor is heterogeneous school quality. If an area is endowed with better schools, and school quality is a determinant of entrepreneurship, it will produce more and better entrepreneurs. Moreover, the effect will be long lasting, as schooling gets embedded in the human capital which travels with the individuals upon moving. We address this concern directly by documenting that there is no correlation between school quality and entrepreneurial density.

5 Data

5.1 The SHIW Sample

We use two main complementary data sources. The first is the Bank of Italy Survey of Households Income and Wealth (SHIW) which collects information on demographics, income and assets for a representative sample of Italian households. Starting in 1991, The survey is run biannually (with the exception of 1997) and we use all the 10 waves from 1991

to 2010 for a total of 65,149 observations. For our purposes, the SHIW contains data on people's occupations and earnings from various sources - including earnings from business. Moreover, for each individual it reports the province of birth and province of residence. The province is our geographical reference for measuring learning opportunities. Provinces are relatively contained units comparable in size to a US county. There are 95 of them at the start of the sample period.¹¹ To identify entrepreneurs we use two measures. The first is a broad one that includes people who are self employed, partners of a company and owners that run an incorporated business (18% in total). The second is a narrow definition which only includes the latter category (8% of the sample); it replicates the entrepreneur definition in the ANIA survey described next. This sample allows to study occupational choice but has limited information regarding the firm. Table 1, panel A shows summary statistics for the SHIW sample. The variables are defined in the appendix.

5.2 The ANIA Sample

Our second data source consists of detailed information on a sample of entrepreneurs and their firms. The data set is the outcome of a survey conducted by ANIA (the Italian National Association of Insurance Companies), covering 2,295 private Italian firms employing between 10 and 250 employees. The survey was conducted between October 2008 and June 2009. It consisted of two distinct questionnaires. The first collected general information on the firm, and was filled by the firm officials on a paper form. The focus of this first questionnaire was on the type of firm-related insurance contracts that the firm had or was considering. But the questionnaire also collected more general information on the firm (such as ownership structure, size and current performance) and its demographic characteristics. The second questionnaire collected information on the person in charge of running the firm. The questionnaire was filled in face-to-face CAPI interviews with the person in charge of running the firm by a professional interviewer of a specialized company. Several categories of data were collected, including information on personal traits and preferences, individual or family wealth holdings, family background, and demographics. The latter in particular includes information on the municipality where the individual (as well as his/her spouse) was born and where he/she was living at 18.

For approximately half of the firms, those incorporated as limited liabilities companies, we have also access to balance sheets. These data were provided by the CERVED Group, a business information agency operating in Italy. The data from the two sources were

¹¹Over the sample period new provinces were created by splitoff of existing provinces; we use the initial 95 province classification.

matched using a uniquely identifying ID number. This is the sample that we use in this paper. The data necessary to compute TFP are available for the years 2005-2007. We end up with 966 firms and almost 2,600 firm-year observations. TFP is computed using factor shares, assuming constant returns to scale (results are robust to alternative computation methods). Differently from the SHIW sample, we know the municipality in which the business is located. As our preferred geographical unit we use the *local labor systems* (LLS), i.e., territorial groupings of municipalities characterized by a certain degree of working-day commuting by the resident population, which represent self-contained labor markets and are therefore the ideal geographical unit within which to study local externalities. LLS are similar to the US MSA. We use the definition based on the 2001 Census, which identifies 686 LLS. Results are robust when performing the analysis at the provincial level.

Summary statistics for this sample are shown in Table 1, Panel B. The comparison with the SHIW sample indicates that they are fairly similar. The main differences are that the ANIA entrepreneurs are on average more educated, are less likely to have grown up or be resident in the South, and manage larger firms, due to the fact that the ANIA sampling scheme excludes firms with less than 10 employees and only includes limited liability firms. The appendix describes the survey design of the SHIW and ANIA surveys in greater detail and provides a precise description of the variables used in this study.

5.3 Measuring learning opportunities and other controls

We measure learning opportunities with firm density at “learning age”. As explained above, as a reference measure of location, we use provinces for the SHIW sample and LLS for the ANIA sample.¹² To measure firm density we obtain census data on the number of firms¹³ active in each location and year since 1951 and divide it by the corresponding resident population. We then attach to each individual in our sample (either in the SHIW or the ANIA survey) the firm density in the location at learning age. Because the Census data are available for 1951, 1961, 1971, 1981, 1991, 1996 and 2001, we perform a simple linear interpolation at the province or LLS level for the mid-census years. Given that the data from the most recent census (2011) are not yet available, the number of current firms is taken from the National Statistics Institute (Istat) datasets on production units by LLS

¹²This is due to data restrictions, as the province is the SHIW’s lowest available level of geographical disaggregation.

¹³In the choice of the firm definition we are constrained by data availability in the early censuses. In particular, they only report data for production units, similar to a plant. Moreover, they do not distinguish between business units and other types, such as government units. We therefore keep all units throughout. In the most recent censuses, non-business units account for less than 3% the of observations.

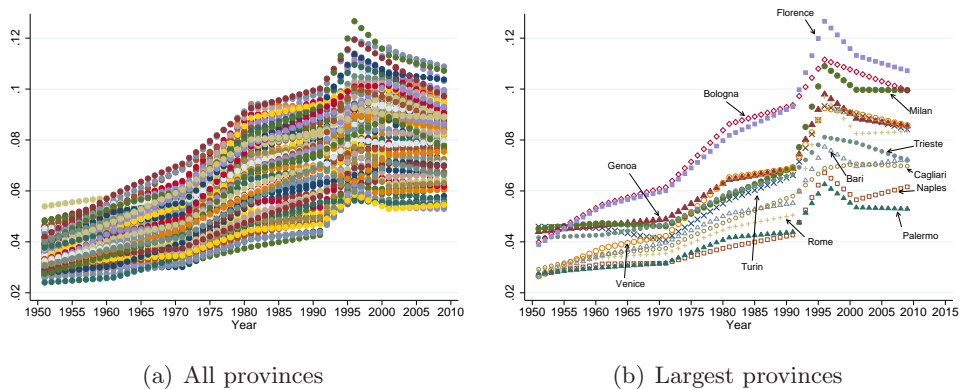
and province, available for 2009.

In the ANIA sample we know where each entrepreneur was living learning age and can attach ED in the the location where she was at that age. In the SHIW we know where the individual was born but not where she grew up; for them we assume that they grew up in the province of birth. This implies that in this sample our measure of learning opportunities contains some measurement error. This measurement error however is likely to be contained. From the ANIA sample we calculate that only 15% of people grew up in a province different from that of birth.

Our identification exploits both cross-sectional and time-series variation in firm density at learning age. Figure 1, panel A shows the pattern of firm density over time for each province in the sample, while Panel B zooms on the largest Italian provinces. Density differs considerably both across provinces at each point in time as well as over time within provinces with very different time profiles. Consider individuals living in a province A. They differ along two dimensions: their current age and the province where they grew up. Some grew up in the same province where they currently live, while others moved after spending their formative years in a different province. We can identify the effect of learning opportunities through two thought experiments: everything else equal, we can compare the occupational decision and the performance as entrepreneurs of individuals currently located in province A who grew up in A in different times and hence faced different firm densities (i.e., individuals who grew up in Florence in the early 1950s versus early 1990s). Or we can compare the outcomes of individuals of the same age who grew up in different provinces, and hence faced different firm densities at learning age, before both moving to province A (e.g., individuals who grew up in the late 1990s in Milan versus Palermo and are currently both in Florence). Because firm density is persistent, current density and density at learning age for individuals based in the province where they grew up tend to be relatively highly correlated (correlation coefficient 0.6), especially for younger individuals. Identification is facilitated by movers. For this subsample of individuals (18% in the SHIW and 25% in the ANIA sample) correlation between current density and density at learning age is much lower (0.2).

Finally, we complement our datasets with the number of the bank branches per capita in each location-year as a measure of local credit market development.

Figure 1: The evolution of firm density across Italian provinces, 1951-2009



Source: Istat Census data

6 Results

The two datasets we use have both pros and cons. The SHIW sample is representative of the Italian population, and as such is ideal to study the decision to become an entrepreneur. The ANIA survey instead only samples entrepreneurs. On the other hand, the SHIW only reports the current place of residence and the residence at birth, while ANIA also contains the location around age 18. Moreover, because the ANIA data are relative to firms, and allow to construct the direct empirical counterpart of the Lucas model’s measure of entrepreneurial ability, i.e., TFP. We begin to study occupational choice and entrepreneur’s performance, measured by business income, in the SHIW sample. We then move on to the ANIA sample to dig deeper into the determinants of entrepreneurial performance.

6.1 SHIW sample: occupational choice

We start by estimating a probit model for the binary decision to become an entrepreneur. In our specification, besides including firm density in the province where the individual was located at learning age, $ED_{j(i,t_L)t_L}$ (here assumed to be the same as the province of birth), we control for firm density in the province of current residence, $ED_{j(i,t)t}$. We capture general geographical features that may affect occupational decisions (such as the cost of starting a business) by inserting dummies for the area of birth and for the current area of residence of the individual (either four macro area dummies - North-east, North-west, Center, South-islands- or 20 regional dummies). In addition we control for individual demographics such as gender, age, education attainment, work experience and family characteristics (whether married, number of earners, and family size). All regressions contain (unreported) dummies

for education, year, and sector.

Results are shown in Table 2 for the broad definition of entrepreneurship, which includes self employed, partners of a company and owners that run an incorporated business. Marginal effects with robust standard errors are reported throughout. In column (1) we report the result of a regression with *ED* at learning age without controlling for current *ED*. People who grew up in provinces with a higher firm density are more likely to become entrepreneurs. As for the other controls, males are more likely to be entrepreneurs, as well as older and married individuals. Moreover, the number of income recipients within a household also exerts a positive effect on the probability of becoming an entrepreneur, arguably because employed family members are at a time a source of startup capital and of income insurance, important to smooth out entrepreneurial income fluctuations.

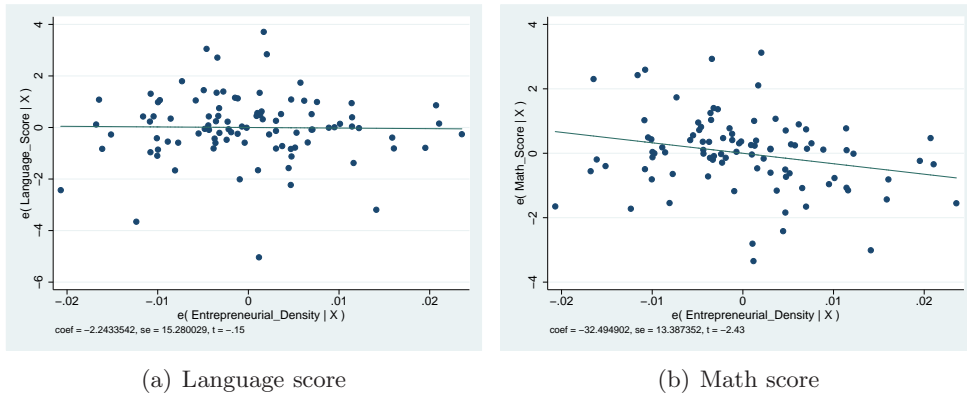
In column (2) we add current *ED*. This is a key control, given that, for stayers, current and learning age *ED* are correlated, so that the latter might just be proxying for the former. As expected the coefficient decreases, from 1.26 to 0.77, but remains large and highly statistically significant (p-value < 1%). Current *ED* has a slightly larger coefficient (0.99) and is also significant. This is not surprising, as by definition in areas with higher *ED* people are more likely to be entrepreneurs. Increasing *ED* at learning age by one standard deviation increases the probability that an individual decides to become an entrepreneur by 1.5 percentage points, 8% of the sample mean.

Having established this basic pattern, we now check whether it is robust to a number of potential objections. A key issue in the choice to become an entrepreneur is access to finance. A large literature argues that liquidity constraints and easiness in raising external capital foster entrepreneurship (see e.g., Evans and Jovanovic, 1989; Banerjee and Newman, 1994). It might be that firm density at learning age reflects local financial development as more firms may be started where capital is easier to raise. To account for this we control for the number of bank branches per capita in the province at learning age and for the same variable in the province of residence at the time the survey was run. As shown by Guiso, Sapienza, and Zingales (2004) the number of bank branches per capita predicts the easiness in obtaining external finance. Results reported in Column (3) show that the variables of interest are unaffected, while the indicators of access to finance do not play a significant role, possibly because their effect is already captured by the geographical controls.

As discussed in Section 4, there is still the possibility that our results are driven by some unobserved local factors that drive both *ED* at learning age and entrepreneurial outcomes later in life, such as school quality, genetic differences and differences in culture. Regarding

school quality ideally, one would like to control for it at the local level at the time of learning. Unfortunately there is no source of information on school quality at the local level over the required time span and thus we cannot control for this potential confounding factor in the regressions. However, we do observe school quality in recent years. If, as the objection holds, school quality is higher in high *ED* areas and this leads to higher human capital (and thus better entrepreneurs), we should find a positive correlation between school quality and *ED* even today, when we have standardized measures of students achievements. We use test scores in fifth grade and run a regression of average test results at the province level on current *ED*, after controlling for macro area dummies. Figure 2 reports the regression line for test scores in language and math. We find no correlation for language scores and a slightly negative correlation for math scores. This evidence goes against the objection that our measure of *ED* is picking up for unobserved school quality.

Figure 2: School test scores and entrepreneurial density, Italian provinces



The figure reports the regression line of test scores on *ED* at the province level, controlling for macro-area dummies. Source: Invalsi test scores and Istat data

To address the other potential source of unobserved heterogeneity - genetic differences and cultural differences across areas - we increase the number of spatial controls, reducing the contribution of the cross-sectional variability in the data to identify the parameters and thus exploit mostly the time series variation. The assumption is that such alternative determinants tend to move at much lower frequencies than *ED* (and learning entrepreneurial ability from it) so that the effect should become smaller if *ED* is mostly capturing cross sectional differences in genetic or cultural endowments but remain roughly unchanged if *ED* at learning age captures entrepreneurial ability. In column (4) we introduce 20 region

dummies, both for the current location and for the area of learning location.¹⁴ If anything, we find that with finer geographical dummies the effect of *ED* become stronger, suggesting that fixed unobserved local characteristics are unlikely to be driving our estimates.

Finally, in columns (5) we focus on a sample of movers, that is, individuals who were born in a place different from their current place of residence. To control for selection into moving, we use the spouse’s place of birth as an exclusion restriction. These exclusion restrictions are statistically powerful (*F*-statistics of 94). We find that the basic result is unchanged and the evidence pointing to a downward bias when endogeneity issues are ignored.

Table 3 replicates the same regressions using the more stringent definition of entrepreneurship which excludes self employment. This decreases the incidence of entrepreneurship from 18% to 8% (see Table 1). Results are qualitatively confirmed using this alternative definition. The point estimates are reduced by half (with the exception of movers), which is expected as the share of entrepreneurs is substantially smaller. According to the estimates of column (2), increasing density at learning age by one standard deviation increases the probability that an individual becomes an entrepreneur by 0.6 percentage points, which represents a similar increase relative to the sample mean as in the case of definition I (7.5% versus 8%).

6.2 SHIW sample: performance

We next study entrepreneurs’ success, measured by income from business. Since this is available only for entrepreneurs, we estimate a Heckman selection model to correct for selection into entrepreneurship and use as an exclusion restriction the number of family earners, which we assume affects the decision to become an entrepreneur (if other family earners offer some risk diversification) but not entrepreneurial success. Otherwise the set of controls is the same as in the probit estimates in tables 2 and 3. Results are shown in Table 4 for the broad definition of entrepreneur. *ED* at learning age has a positive and strongly significant effect on the (log of) entrepreneur’s earnings. The effect is slightly smaller but retains fully its statistical significant even after controlling for the current firms density in the province (column 2). The effect of current *ED* is positive and significant, consistent with a large literature on agglomeration economies (Rosenthal and Strange, 2004a; Moretti, 2011), but the effect of *ED* at learning age is almost twice as large as that of current

¹⁴Regions are territorial units comprised on average by five provinces. We have also experimented with province dummies, which completely eliminate the cross sectional differences. The point estimates are similar but we loose statistical precision.

entrepreneurial density (4.07 vs. 2.36), and highly statistically significance. In terms of magnitude, the estimate implies that increasing density at learning age by one standard deviation increases entrepreneurial income by 8%.

This result indicates that external effects related to firm density that take place at learning age are more important for firm profits than current externalities. This is an important result for the literature on agglomeration economies and the channels through which they operate. Duranton and Puga (2004b) propose three channels through which agglomeration economies can affect firm performance: first, the opportunities to learn from other firms; second, the size of the local work force, which can increase the division of labor and the quality of job-worker matches; and third, a greater variety of intermediate inputs. Of these three channels, only learning can have effects that persist once an entrepreneur moves from a high density area. Our results therefore indicate that learning externalities are at play in the determination of agglomeration economies.¹⁵ Moreover, they also point to a specific channel of learning externalities, that is, those that get embedded in the individual's human capital in the coming of age years, which are distinct from contemporaneous knowledge spillovers that result from being located in a certain area in the current period.

In column (3) we add the measures of liquidity constraints, again finding that they do not affect our results – if anything, the effect of ED at learning age becomes stronger. The same holds when we include region dummies (both for current and learning age location), in line with the hypothesis that the ED at learning age is not proxying for other unobservables that determine both ED at learning age and entrepreneurial success today.

Finally, column 5 focuses on the sample of movers, where identification is robust to the concerns discussed in Section 4. We control for joint selection into entrepreneurship as well as moving. Again, we find that the basic conclusions are confirmed, with the effect becoming larger.

Table 5 replicates the estimate using the stricter definition of entrepreneurship. This reduces the observations from 10,642 to 4,726. The results are all confirmed, with the only exception of the specification with region dummies, where we lose precision so that the estimate is no longer statistically significant (with a p-value of 13%). We also find that in the movers sample the coefficient is substantially larger than in the overall one, arguably because breaking the correlation between ED at learning age and current ED is more important in the smaller sample of strictly defined entrepreneurs.

¹⁵Of course, this does not imply that the other sources of externalities are at play. In fact, ED is a natural indicator of learning externalities, but not necessarily of the size of the local workforce or of intermediate input varieties, typically captured by other indicators (Glaeser et al., 1992).

6.3 ANIA sample: performance

We now turn to the ANIA sample to further investigate the effects of ED on entrepreneurial quality. We use the same framework as in the SHIW sample, with a few exceptions. First, we only study entrepreneurial success, as this is a sample of entrepreneurs and therefore cannot be used to study occupational choice. Following Lucas (1978), we measure entrepreneurial quality with firm TFP. Second, we measure ED in the location in which the entrepreneur was actually living at age 18, rather than at birth. This is indeed important, as the two locations differ for about 15% of cases in our sample. Third, the set of controls is the same as in the SHIW regressions, with two exceptions: (i) experience is defined in terms of years since the individual started managing the firm; (ii) we also add a dummy for whether at least one of the parents was an entrepreneur, which might be correlated with ED at learning age. Both these variables are not available in the SHIW. We cluster standard errors at the firm level, as we use three observations per firm (2005-2007).

Table 6 shows the results. ED at learning age has a positive and precisely estimated effect on the firm TFP (column 1). Increasing ED at learning age by one standard deviation (0.02) increases TFP by almost 10%. None of the other controls display a significant effect, with the exception of age. In column (2) we add current ED , finding a positive but statistically insignificant coefficient of this variable. The coefficient on ED at learning age drops slightly but remains significant at 5% level. As in the SHIW data, therefore, we find that learning age externalities play a stronger role than current production externalities. It is also remarkable that the elasticity of entrepreneurial quality to ED is very close in the two datasets, although the sample and the variables used to measure entrepreneurial quality are different.

The remaining columns perform a series of robustness checks. First, we add the measures of liquidity constraints (column 3). The estimates of the ED coefficients increase, confirming that they are not proxying for financial frictions. Next, we control for ED at birth (column 4). A growing literature stresses the role of *early* education on professional outcomes (Heckman, Pinto, and Savelyev, 2013). Extrapolating from this literature it may be argued that the economic environment that matters most to accumulate entrepreneurial ability is the one in the early years of development. In the ANIA sample we have direct information of place of residence both at birth and at 18. For movers, this breaks the strong correlation in ED at birth and at learning age that results from assuming that the two locations are the same, as we are forced to do in the SHIW sample. The estimated coefficient of ED at birth is not statistically different from zero, while that of ED at learn-

ing age is unaffected, supporting the idea that learning entrepreneurial talents from other entrepreneurs occurs in the early years before the beginning of one’s professional life. This result also allows us to address a potential competing explanation: genetic differences. In fact, the birthplace should be a better identifier of genetic influences than the place where one grows up. The significance of ED at learning age and the lack of significance of ED at birth allow us to reject the hypothesis that higher entrepreneurial density proxies for genetic propensity to engage in entrepreneurship.

These findings could still be consistent with a cultural explanation if the culture that matters for entrepreneurship is not acquired in the early years of life but only later. If the density where one grows up is a reflection of an underlying entrepreneurial culture, our measure might just be proxying for it rather than for learning opportunities. To address this, we rely on the idea that culture evolves slowly and the geographical unit that is covered by a culture is broader than that where learning entrepreneurial abilities from firms takes place. Accordingly, in column (5) we expand the number of spatial controls, to account for potential spatially correlated effects. Given that the geographical unit for ED is the LLS, we can use finer controls than those with the SHIW sample and insert 95 province dummies (rather than 20 regional dummies). Since provinces are in charge of managing schools, provincial dummies also account for any persistent geographical differences in the quality of schooling. As before, we use separate dummies for location at learning age and current location. Again, we find that the point estimates are unchanged – if anything, they become larger – and that the coefficient is statistically significant at 5% level.¹⁶

Finally, in column (6) we report the regressions for the sample of movers. We employ a Heckman correction model, using two exclusion restrictions. The first is a dummy equal to one if the entrepreneur’s spouse was born in a different LLS than the one she was located at 18. The second is a dummy for entrepreneurs who at age 18 were resident of a different location than the birth location. The idea is that these two dummies are correlated with mobility but not with entrepreneurial ability. The dummies are highly significant and have the expected sign in the selection equation. The Mills ratio is significant in the second stage equation. As in the SHIW sample, the effect of ED at learning age becomes stronger and more precisely estimated.

As a final check, we have used value added per worker to measure entrepreneurial quality.

¹⁶We have also experimented with dummies at the LLS level, thus relying for identification of learning effects only obtaining on the time variation in ED . As with the SHIW data, estimates for the effect of ED at learning age are similar in magnitude but with larger standard errors. This is not surprising, given the large number of dummies (more than 400) and the limited sample size.

While TFP is the closest empirical counterpart to ability in Lucas model, estimating TFP requires more assumptions than just computing a simple measure of labor productivity. Results in Table 7 confirm all those obtained with TFP. The coefficient on ED at learning age tends to be larger and more precisely estimated. Increasing density at learning age by one standard deviation results in an increase in value added per worker of around 16%.

Overall, we take this evidence as supportive of the idea that one important channel through which individuals acquire entrepreneurial abilities is by early exposure to a richer entrepreneurial environment.

7 What features of entrepreneurship are learnable?

Being an entrepreneur requires multiple talents. The entrepreneur develops new ideas, evaluate their market appeal, organizes production, bears the risk of failure. Sorensen and Chang (2008) argue that entrepreneurship is defined by three features: risk bearing, propensity to innovate, and coordination ability. These three features are well rooted in the economics tradition. The role of the entrepreneur as the bearer of risk dates back to Knight (1921), who ascribes the very existence of the firm to its role as an insurance provider. Schumpeter (1911) emphasized the role of the entrepreneur as the carrier of innovation and creative destruction deriving from innovation as the key source of growth in market economies. But in addition to being propense to innovate and to bear the risk of such process, the entrepreneur also needs to be able to implement an idea, organize production, and bring the product to the market. Marshall (1890) was the first to stress the importance of localized spillovers to learn “the mysteries of the trade”.

In this section we offer empirical evidence on how “learnable” these three features are, using information from the ANIA survey. In the face-to-face interview respondents were asked a set of questions aimed at eliciting risk preferences and identifying personality traits. We briefly describe them here and report the full questions in the Appendix. First, respondents were asked to choose between different investment strategies with decreasing risk-returns profile, ranked from 1 (high risk and high return) to 5 (low risk and return). We use the answers to this question as a measure of risk aversion. Second, the respondent was asked to express, on a scale from 1 to 5, their preferences regarding drawing a ball from an urn with 50 green and 50 yellow balls vs. drawing it from an urn containing an unknown share of balls of each color. We use this question to measure ambiguity aversion. A measure of self-confidence was obtained by asking the entrepreneur whether she ranked herself below, at the same level or above the average ability or other entrepreneurs. Optimism is mea-

sured by the answer (on a scale from 0 to 10) to how much the respondent agrees with the statement “*All things considered I expect more good than bad things in life*”. Job satisfaction was measured from the answer to the question: “*Excluding the monetary aspects and considering only the other characteristics of your job, can you tell me if they give you more satisfaction or annoyance?*”, again on a scale 0-10. Summary statistics for these variables are reported in Table 8, Panel A.

The entrepreneur’s propensity to innovate is measured by two (arguably imperfect) proxies. The first is the share of 2007 sales of innovative or significantly improved products or services that were introduced in the market in the 2005-2007 period. The second is a score of the practices used by the firm to manage the innovation process, collected in the managerial practices follow up survey. Descriptive statistics for all these variables are in Table 8, Panel B.

The original survey lacks information on coordination ability. In the Fall of 2012 we re-contacted the entrepreneurs in the ANIA sample and asked them to participate in a second round of interviews to assess their managerial practices. We used the methodology developed by the World Management Survey (WMS, see Bloom and Van Reenen (2010a,b)). The WMS is based on a telephone double-blind survey technique and comprises a set of open ended questions, whose qualitative answers are then recoded into quantitative measures with a score ranging between 1 (worst) to 5 (best managerial practices). The questionnaire comprises five sections that consider different key areas of management practices. We investigate three areas. The first section is *Monitoring* and focuses on the monitoring of performance and reviewing the results. The second section is *Targets* and aims at assessing the respondents’ managerial ability to identify quantitative and qualitative targets, their interconnection and their temporal cascade. The third section is *People* and it is concerned with human resource management, ranging from promoting and rewarding employees based on performance, removing poor performers, hiring and retaining the best workers. The average score of the three areas defines the index of overall managerial ability.¹⁷ Of the original 966 entrepreneurs, we were able to re-interview 388 (details on the data collection methodology are in the appendix, section A.1). Descriptive statistics are in Table 8, Panel C.

As a first check, in Appendix Table A.2 we regress TFP on personality traits. We have

¹⁷The original WMS contains two additional areas, operations and leadership. These areas investigate practices that are very sector specific, such as the operation of the production unit. Given that we have firms from both manufacturing and services, we only investigated areas where practices are sufficiently similar to allow for the use of the same scheme of interview. In any case, in all regressions we use sector dummies.

no prior on how the degree of risk aversion or optimism should correlate with firm level TFP. Indeed, the correlation is always insignificant. Next, we check if these traits are correlated with ED at learning age. Given that what we are trying to measure here is more elusive than occupational choice or performance, and that the number of observations is smaller, as we only use the cross section rather than the three years of data as with TFP, for all regressions in this section we start with a parsimonious specification which only includes macro area and sector dummies, and then add the individual controls. The results are reported in Table 9. In general, we find no evidence that entrepreneurial traits are affected by ED at learning age. Growing up in areas with greater firm density seems to lead to higher risk aversion in the specification with individual controls (column 2), but precision is low and the estimate changes sign and is not statistically significant controlling only for sector and area dummies (column 1). Moreover, one would expect that ED at learning age reduces risk aversion, as risk tolerance is one of the key features of entrepreneurship. This evidence instead is consistent with the predominant role of the innate component in explaining individual risk preferences found by Cesarini et al. (2009) using twin studies. The measure of ambiguity aversion is weakly negatively correlated with entrepreneurial density at learning age but only when controlling for industry and area dummies; if individual controls are added the effect becomes smaller and is not statistically significant. All other traits are uncorrelated with ED at learning age. Overall, these results suggests that traits are not affected by the entrepreneurial context at learning age, arguably because a large component is biologically determined or acquired much earlier, perhaps within the family or at school (Heckman, Pinto, and Savelyev, 2013).

Next, we run the same exercise for innovation capacity. Table A.2 (column 6) and A.3 (column 5) in the Appendix show that the two measures of innovation are not correlated with TFP. Consistently, we find no effect of ED at learning age on innovation capacity (Table 10): the Schumpeterian component of entrepreneurship is not related to ED at learning age. This is indeed in line with Schumpeter's original notion of the innovator as the one that challenges established knowledge with new, unforeseen ideas, something that is unlikely one can learn from others.

The ability to manage is more likely to be learnable. Indeed, managerial skills are precisely what one learns in business schools and colleges specialized in teaching entrepreneurship. But these skills may possibly be learned also before college by direct observation and exposure to adopted practices by the firms in the place one grows up.

We test this potential channel using the measures of managerial practices discussed

above. To first validate these measures, in Table A.3 we report the results of regressions in which productivity and firm size (measured by the log of the number of employees) are regressed on the managerial practices scores. As shown by Bloom and Van Reenen (2007) and Bloom, Sadun, and Van Reenen (2012), managerial practices are strongly correlated with the size of the firm and its productivity. This holds in our sample too: each type of managerial practice as well as the general index is positively and significantly correlated with TFP and firm size. Table 11 runs regressions of these measures on *ED* at learning age controlling for current density. Interesting, if we only control for current density and area and sector dummies, density at learning age has a positive and statistically significant correlation with managerial practices while current density has a small and insignificant effect (columns 1,3 5), with the exception of *People*, where the *ED* coefficient has a *p*-value of 0.11. When we introduce the individual controls, the effect of density at learning age retains its positive effect but its size halves on average and the estimate loses precision, so that none of the coefficient is statistically significant. Indeed, measuring managerial practices is a difficult task and, unfortunately, we have a limited number of observations (less than 400), reducing the statistical power of the estimates compared to the other regressions in the paper. It turns out that the loss of significance of *ED* learn in Table 11 is due to the inclusion of the age and experience variables. These variables are mechanically correlated with *ED* learn, since the latter has a time varying component that trends similarly to age and experience. The limited statistical power prevents us from identifying separately the two effects.

There is also another, more economic reason that might explain the difficulty in singling out the aspects of entrepreneurship that can be learned. Lazear (2005) argues that an entrepreneur is the “Jack-of-all-trades”, i.e., an individual with a balanced set of skills, rather than one that excels in any particular activity. Using data on Stanford GSB MBAs, he finds that those that tend to perform uniformly well in (but not necessarily on top of) all courses are indeed more likely to become entrepreneurs than those who excel in specific subjects. Similar conclusions are reached by Bruhn, Karlan, and Schoar (2013) in their randomized trial in which managerial consulting services are provided to 150 SMEs in Mexico. They find that managerial consulting does improve overall firm performance, but no single aspect of managerial practices emerges as key for the improvement. Profits and TFP are comprehensive measures of entrepreneurial capability and clearly correlate with learning opportunities. Singling out single aspects, such as traits or specific managerial capabilities, might instead be more difficult, as there is no single component that by itself

can explain entrepreneurial ability. This confirms the elusive nature of what makes a good entrepreneur.

Overall, we take this evidence as suggesting that managerial capabilities can be learned from other entrepreneurs, while both traits and innovation capacity might be more an innate component, less subject to the influence of the economic environment.

8 Conclusions

This paper analyzes the extent to which growing up in a high entrepreneurial area increases both the likelihood that an individual becomes an entrepreneur and her entrepreneurial ability or success. We find evidence that this is indeed the case, as would be implied by models where entrepreneurial ability is socially acquired. Interestingly, the effects of entrepreneurial density at learning age are stronger than those of current entrepreneurial density, which captures more traditional spillover effects. A remarkable finding is that the results we find hold in two distinct datasets and are robust to a large set of controls. Moreover, we find suggestive evidence that individuals growing up in high firm density areas acquire managerial skills, but that individual traits reflecting risk aversion, aversion to ambiguity, self-confidence or optimism, and propensity to innovate (which are traditionally associated to entrepreneurship) are independent of location. This suggests that the “personality traits” factor of entrepreneurship has a larger innate component, swamping any effect of the environment.

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Table 1: Descriptive statistics

Variable	Mean	Std. Dev.	Variable	Mean	Std. Dev.
Panel A: SHIW Sample					
Entrepreneur, Def. I	0.18	0.38	Mover	0.21	0.41
Entrepreneur, Def. II	0.08	0.27	Mover— Entrepreneur	0.18	0.39
ED learn	0.06	0.02	Born NorthW	0.19	0.39
ED today	0.09	0.02	Born NorthE	0.20	0.40
Male	0.61	0.48	Born Center	0.20	0.40
Age	42.28	9.73	Born South	0.39	0.48
Experience	22.05	11.19	Resident NorthW	0.24	0.43
Elementary school	0.11	0.32	Resident NorthE	0.22	0.41
Junior HS	0.32	0.46	Resident Center	0.21	0.41
HS degree	0.40	0.49	Resident South	0.31	0.46
College	0.13	0.34	Agriculture	0.04	0.20
Post graduate	0.01	0.07	Manufacturing	0.23	0.42
Married	0.71	0.45	Construction	0.06	0.25
Family size	3.40	1.18	Services and others	0.64	0.47
N. of family earners	2.08	0.86	Firm size	4.31	37.14
Income (Log)	9.02	0.86			
Panel B: ANIA Sample					
TFP (log)	2.45	0.90	Learn in South	0.21	0.41
ED learn	0.06	0.019	Resident in NorthW	0.31	0.46
ED today	0.08	0.015	Resident in NorthE	0.29	0.45
Male	0.67	0.46	Resident in Center	0.19	0.3
Age	47.02	10.48	Resident in South	0.19	0.39
Years in control	15.79	10.99	Mining	0.02	0.16
Elementary school	0.00	0.07	Manufacturing	0.35	0.47
Junior HS	0.06	0.24	Utilities	0.01	0.09
HS degree	0.67	0.46	Construction	0.07	0.26
College	0.23	0.42	Trade	0.24	0.42
Post graduate	0.01	0.13	Transport	0.04	0.20
Married	0.78	0.41	Other services	0.24	0.42
Family size	3.06	1.17	Employees	34.33	40.38
Mover	0.25	0.43	Spouse same area	0.53	0.49
Learn in NorthW	0.30	0.46	Moved before learning	0.19	0.39
Learn in NNorthE	0.28	0.45	LC learn	-8.37	0.44
Learn in Center	0.19	0.39	LC Today	-7.42	0.31

Note: See appendix A.2 for the definition of the variables.

Table 2: The probability of becoming an entrepreneur, SHIW sample, Definition I

	(1)	(2)	(3)	(4)	(5)
ED learn	1.261*** (0.183)	0.767*** (0.208)	0.870*** (0.222)	0.898*** (0.262)	1.623** (0.795)
ED today		0.990*** (0.197)	1.069*** (0.214)	1.837*** (0.269)	1.181** (0.544)
LC learn			-0.001 (0.006)	0.004 (0.008)	-0.008 (0.014)
LC today			-0.012 (0.011)	-0.000 (0.013)	-0.066** (0.028)
Male	0.055*** (0.003)	0.055*** (0.003)	0.056*** (0.003)	0.056*** (0.003)	0.073*** (0.011)
Age	0.157*** (0.016)	0.136*** (0.017)	0.140*** (0.017)	0.143*** (0.019)	0.167*** (0.047)
Experience	-0.013** (0.005)	-0.014*** (0.005)	-0.014*** (0.005)	-0.013** (0.005)	-0.017 (0.015)
Married	0.021*** (0.004)	0.020*** (0.004)	0.021*** (0.004)	0.020*** (0.004)	0.019 (0.013)
Fam. size	-0.001 (0.002)	-0.000 (0.002)	-0.000 (0.002)	0.000 (0.002)	-0.005 (0.005)
N. income recipients	0.013*** (0.002)	0.013*** (0.002)	0.012*** (0.002)	0.012*** (0.002)	0.022*** (0.006)
Observations	57,547	57,547	57,293	57,293	12,87
Area dummies:					
Macro-area residence	X	X	X		X
Macro-area birth	X	X	X		X
Region residence				X	
Region birth				X	

Note: Probit regressions for occupational choice. The dependent variable is a dummy equal to one if the individual is an entrepreneur. Entrepreneur definition I includes: (a) Individual entrepreneurs, (b) Owner or member of family business, and (c) working shareholder/partner, (d) Self-employed/Craft workers. ED learn is entrepreneurial density at 18 in the place of birth, ED today is current entrepreneurial density in the place of residence. LC are liquidity constraints, defined as bank branches over resident population. All regressions include year, education and sector dummies. Column (5) only uses the sample of movers, correcting for selection with an Heckman model in which the excluded variable is a dummy equal to one if the entrepreneur is married and his/her spouse was born in a different province than his/hers. Robust standard errors in parenthesis. Significance levels: *: 10%, **: 5%, *** : 1%.

Table 3: The probability of becoming an entrepreneur, SHIW sample, Definition II

	(1)	(2)	(3)	(4)	(5)
ED learn	0.631*** (0.123)	0.298** (0.139)	0.389*** (0.148)	0.330* (0.174)	2.025** (0.906)
ED today		0.673*** (0.132)	0.607*** (0.142)	1.056*** (0.179)	0.487 (0.536)
LC learn			-0.009** (0.004)	-0.004 (0.005)	-0.036** (0.015)
LC today			0.008 (0.007)	-0.000 (0.009)	-0.030 (0.027)
Male	0.012*** (0.002)	0.013*** (0.002)	0.013*** (0.002)	0.013*** (0.002)	0.022** (0.011)
Age	0.087*** (0.011)	0.072*** (0.011)	0.071*** (0.012)	0.070*** (0.013)	0.164** (0.056)
Experience	-0.004 (0.004)	-0.005 (0.004)	-0.005 (0.004)	-0.005 (0.004)	0.002 (0.015)
Married	0.027*** (0.003)	0.027*** (0.003)	0.027*** (0.003)	0.027*** (0.003)	0.044*** (0.013)
Fam. size	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.007 (0.005)
N. income recipients	0.021*** (0.001)	0.020*** (0.001)	0.020*** (0.001)	0.019*** (0.001)	0.042*** (0.010)
Observations	57,547	57,547	57,293	57,293	12,87
Area dummies:					
Macro-area residence	X	X	X		X
Macro-area birth	X	X	X		X
Region residence				X	
Region birth				X	

Note: Probit regressions for occupational choice. The dependent variable is a dummy equal to one if the individual is an entrepreneur. Entrepreneur definition II includes (a) Individual entrepreneurs, (b) Owner or member of family business, and (c) working shareholder/partner and excludes (d) Self-employed/Craft workers. ED learn is entrepreneurial density at 18 in the place of birth, ED today is current entrepreneurial density in the place of residence. LC are liquidity constraints, defined as bank branches over resident population. All regressions include year, education and sector dummies. Column (5) only uses the sample of movers, correcting for selection with an Heckman model in which the excluded variable is a dummy equal to one if the entrepreneur is married and his/her spouse was born in a different province than his/hers. Robust standard errors in parenthesis. Significance levels: *: 10%, **: 5%, *** : 1%.

Table 4: Entrepreneurial income, SHIW sample, Definition I

	(1)	(2)	(3)	(4)	(5)
ED learn	5.299*** (0.946)	4.074*** (1.061)	5.663*** (1.116)	5.274*** (1.296)	7.442*** (2.608)
ED today		2.356** (1.004)	2.378** (1.068)	1.987 (1.350)	2.198 (2.282)
LC learn			-0.110*** (0.029)	-0.121*** (0.040)	-0.135** (0.058)
LC today			-0.029 (0.052)	-0.037 (0.063)	0.029 (0.098)
Male	0.449*** (0.019)	0.449*** (0.020)	0.450*** (0.019)	0.441*** (0.020)	0.469*** (0.043)
Age	0.330*** (0.082)	0.274*** (0.084)	0.294*** (0.085)	0.258*** (0.094)	0.663*** (0.186)
Experience	0.048* (0.026)	0.046* (0.026)	0.044* (0.026)	0.047* (0.026)	-0.039 (0.060)
Married	0.124*** (0.023)	0.123*** (0.023)	0.125*** (0.023)	0.121*** (0.023)	0.120** (0.056)
Fam. size	0.009 (0.007)	0.009 (0.007)	0.008 (0.007)	0.009 (0.007)	0.027 (0.017)
$\lambda_{\text{entr.}}$	0.192*** (0.030)	0.188*** (0.031)	0.188*** (0.030)	0.174*** (0.029)	0.402*** (0.129)
λ_{mover}					-0.032 (0.050)
Observations	10,642	10,642	10,642	10,642	2,061
Area dummies:					
Macro-area residence	X	X	X		X
Macro-area birth	X	X	X		X
Region residence				X	
Region birth				X	

Note: The dependent variable is log income from entrepreneurial activity. Entrepreneur definition I includes: (a) Individual entrepreneurs, (b) Self-employed/Craft workers, (c) Owner or member of family business, and (d) working shareholder/partner. ED learn is entrepreneurial density at 18 in the place of birth, ED today is current entrepreneurial density in the place of residence. LC are liquidity constraints, defined as bank branches over resident population. All regressions include year, education and sector dummies. All regressions are the second stage of a Heckman two stage model to correct for the choice of becoming an entrepreneur. The excluded variable is the number of income recipients in the family. Column (5) only uses the sample of movers, correcting for selection with an Heckman model in which the excluded variable is a dummy equal to one if the entrepreneur is married and his/her spouse was born in a different province than his/hers. Robust standard errors in parenthesis. Significance levels: *: 10%, **: 5%, *** : 1%.

Table 5: Entrepreneurial income, SHIW sample, Definition II

	(1)	(2)	(3)	(4)	(5)
ED learn	5.395*** (1.580)	3.473** (1.765)	4.583** (1.858)	3.338 (2.151)	13.908*** (4.246)
ED today		3.892** (1.717)	3.954** (1.797)	4.851** (2.270)	3.163 (3.493)
LC learn			-0.076 (0.051)	-0.081 (0.069)	-0.270*** (0.099)
LC today			-0.034 (0.087)	-0.094 (0.107)	0.291** (0.147)
Male	0.419*** (0.029)	0.422*** (0.029)	0.421*** (0.029)	0.414*** (0.029)	0.318*** (0.062)
Age	0.618*** (0.140)	0.526*** (0.143)	0.543*** (0.145)	0.472*** (0.160)	1.722*** (0.313)
Experience	0.014 (0.043)	0.011 (0.043)	0.010 (0.043)	0.009 (0.043)	-0.071 (0.095)
Married	0.080* (0.042)	0.080* (0.042)	0.082** (0.042)	0.077* (0.042)	0.153 (0.100)
Fam. size	0.009 (0.012)	0.010 (0.012)	0.009 (0.012)	0.008 (0.012)	0.092*** (0.029)
$\lambda_{\text{entr.}}$	0.521*** (0.062)	0.519*** (0.062)	0.517*** (0.062)	0.500*** (0.063)	1.212*** (0.196)
λ_{mover}					0.022 (0.055)
	4,726	4,726	4,726	4,726	965
Area dummies:					
Macro-area residence	X	X	X		X
Macro-area birth	X	X	X		X
Region residence				X	
Region birth				X	

Note: The dependent variable is log income from entrepreneurial activity. Entrepreneur definition II includes (a) Individual entrepreneurs, (b) Owner or member of family business, and (c) working shareholder/partner and excludes (d) Self-employed/Craft workers. ED learn is entrepreneurial density at 18 in the place of birth, ED today is current entrepreneurial density in the place of residence. LC are liquidity constraints, defined as bank branches over resident population. All regressions include year, education and sector dummies. All regressions are the second stage of a Heckman two stage model to correct for the choice of becoming an entrepreneur. The excluded variable is the number of income recipients in the family. Column (5) only uses the sample of movers, correcting for selection with an Heckman model in which the excluded variable is a dummy equal to one if the entrepreneur is married and his/her spouse was born in a different province than his/hers. Robust standard errors in parenthesis. Significance levels: *: 10%, **: 5%, *** : 1%.

Table 6: TFP and ED at learning age, ANIA sample

	(1)	(2)	(3)	(4)	(5)	(6)
ED learn	4.790*** (1.839)	4.097** (2.085)	5.296** (2.133)	6.302*** (2.292)	5.877** (2.740)	11.102*** (3.329)
ED today		1.577 (2.283)	3.321 (2.378)	3.357 (2.417)	3.534 (4.655)	3.692 (4.327)
LC learn			-0.024 (0.102)	-0.018 (0.103)	0.036 (0.211)	0.217 (0.173)
LC today			-0.372* (0.195)	-0.379* (0.197)	-1.251 (0.804)	-0.224 (0.348)
Male	-0.070 (0.049)	-0.067 (0.049)	-0.071 (0.049)	-0.068 (0.049)	-0.039 (0.053)	-0.038 (0.104)
Age	0.366** (0.162)	0.322* (0.175)	0.340* (0.203)	0.312 (0.211)	0.385 (0.317)	1.052*** (0.370)
Experience	0.001 (0.002)	0.001 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.003)	-0.002 (0.005)
Parent entrepreneur	-0.062 (0.050)	-0.062 (0.050)	-0.075 (0.050)	-0.079 (0.050)	-0.075 (0.053)	0.112 (0.100)
Married	0.092 (0.070)	0.094 (0.070)	0.095 (0.070)	0.103 (0.071)	0.080 (0.076)	0.045 (0.132)
Fam. size	0.001 (0.023)	-0.000 (0.023)	-0.004 (0.023)	-0.008 (0.023)	-0.006 (0.024)	0.001 (0.044)
ED birth				-3.112 (3.121)		
λ_{mover}						0.359*** (0.108)
Observations	2,604	2,604	2,586	2,547	2,586	657
Area dummies:						
Macro-area of residence	X	X	X	X		X
Macro-area of birth	X	X	X	X		X
Province of residence					X	
Province of birth					X	

Note: The dependent variable is log TFP. All regressions are based on the data for the years 2005-2007 and include year, education and sector dummies. Column (6) only uses the sample of movers, correcting for selection with an Heckman model in which the excluded variable is a dummy equal to one if the entrepreneur is married and his/her spouse was born in a different LLS than his/hers. Standard errors clustered at the level of the firm. Significance levels: *: 10%, **: 5%, *** : 1%.

Table 7: Value added per worker and ED at learning age, ANIA sample

	(1)	(2)	(3)	(4)	(5)	(6)
ED learn	8.729*** (2.074)	8.410*** (2.297)	9.242*** (2.360)	9.363*** (2.567)	7.177** (3.126)	9.471*** (3.364)
ED today		0.728 (2.431)	0.528 (2.563)	0.478 (2.633)	1.235 (4.910)	-2.821 (4.300)
LC learn			-0.190* (0.111)	-0.192* (0.113)	-0.109 (0.247)	-0.010 (0.185)
LC today			0.029 (0.214)	0.030 (0.217)	-0.928 (0.845)	0.292 (0.375)
Male	-0.014 (0.057)	-0.013 (0.057)	-0.011 (0.057)	-0.015 (0.058)	-0.006 (0.062)	0.011 (0.121)
Age	0.429** (0.181)	0.409** (0.190)	0.234 (0.221)	0.218 (0.229)	0.092 (0.352)	0.516 (0.444)
Experience	0.007** (0.003)	0.007*** (0.003)	0.007*** (0.003)	0.007*** (0.003)	0.009*** (0.003)	0.006 (0.005)
Parent entrepreneur	0.010 (0.054)	0.010 (0.054)	0.007 (0.054)	0.005 (0.054)	-0.036 (0.058)	0.174 (0.108)
Married	0.116 (0.074)	0.117 (0.074)	0.117 (0.074)	0.120 (0.075)	0.089 (0.080)	0.059 (0.140)
Fam. size	0.006 (0.023)	0.005 (0.023)	0.001 (0.023)	0.003 (0.024)	0.001 (0.026)	0.018 (0.040)
ED birth				-0.522 (3.327)		
λ_{mover}						0.087 (0.164)
Observations	2,624	2,624	2,606	2,567	2,606	2,567
Area dummies:						
Macro-area of residence	X	X	X	X		X
Macro-area of birth	X	X	X	X		X
Province of residence					X	
Province of birth					X	

Note: The dependent variable is log of value added per worker. All regressions are based on the data for the years 2005-2007 and include year, education and sector dummies. Column (6) only uses the sample of movers, correcting for selection with an Heckman model in which the excluded variable is a dummy equal to one if the entrepreneur is married and his/her spouse was born in a different LLS than his/hers. Standard errors clustered at the level of the firm. Significance levels: *: 10%, **: 5%, *** : 1%.

Table 8: Descriptive statistics, traits, managerial practices and innovation

Variable	Obs	Mean	Std. Dev.	Min	Max
Panel A: Traits					
Risk aversion	966	2.70	.67	1	4
Ambiguity aversion	954	3.40	1.44	1	5
Confidence	944	2.18	.40	1	3
Optimism	946	7.33	1.76	0	10
Satisfaction	935	7.47	1.67	0	10
Panel B: Innovation					
Share innov.	736	17.43	24.46	0	100
Innov. practices	388	2.09	1.2	1	5
Panel C: Managerial practices					
Management	388	2.41	.66	1	4.41
Monitoring	388	2.67	.82	1	5
Targets	388	2.41	.90	1	5
People	388	2.33	.64	1	5

Note: See appendix A.2 for the definition of the variables.

Table 9: Entrepreneurial traits and ED at learning age, ANIA sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Risk aversion		Ambiguity aversion		Confidence		Optimism		Satisfaction	
ED learn	-1.038 (1.346)	3.725* (2.109)	-5.299* (2.827)	-2.295 (4.524)	-1.087 (0.770)	-0.235 (1.202)	2.325 (3.795)	-1.140 (6.123)	2.072 (3.601)	4.277 (5.332)
ED today	0.932 (1.935)	-1.933 (2.042)	-1.634 (4.114)	-2.971 (4.443)	-1.027 (1.166)	-0.982 (1.288)	-3.201 (4.730)	-2.595 (5.174)	-2.348 (4.739)	-3.496 (5.224)
Male		-0.062 (0.048)		0.132 (0.108)		0.110*** (0.028)		-0.063 (0.127)		-0.074 (0.113)
Age		0.427** (0.174)		0.094 (0.371)		0.102 (0.103)		-0.306 (0.476)		0.197 (0.422)
Experience		0.001 (0.003)		0.002 (0.005)		-0.002 (0.001)		0.009 (0.006)		0.007 (0.006)
Parent entrepreneur		-0.035 (0.047)		-0.030 (0.103)		0.052* (0.029)		-0.019 (0.126)		0.052 (0.121)
Married		0.024 (0.059)		0.108 (0.135)		0.018 (0.038)		-0.097 (0.167)		0.032 (0.150)
Fam. size		0.027 (0.021)		-0.002 (0.045)		-0.001 (0.012)		0.130** (0.053)		0.062 (0.050)
Observations	967	931	955	919	944	909	946	916	937	907

Note: The dependent variables are listed in the first row. All regressions include macro-area of learning and of current location and sector dummies. Regressions in even columns also include education dummies. Robust standard errors in parenthesis. Significance levels: *: 10%, **: 5%, *** : 1%. Significance levels: *: 10%, ** : 5%, *** : 1%

Table 10: Innovation and ED at learning age, ANIA sample

	(1)	(2)	(3)	(4)
	Share innov. sales		Innov. Score	
ED learn	0.344	-1.437	0.910	-5.576
	(0.555)	(1.019)	(3.926)	(6.479)
ED today	-1.436*	-0.790	3.863	7.534
	(0.802)	(0.948)	(5.626)	(5.992)
Male		0.026		0.420***
		(0.019)		(0.142)
Age		-0.127		-0.492
		(0.078)		(0.485)
Experience		-0.003***		-0.010*
		(0.001)		(0.006)
Parent entrepreneur		0.016		0.014
		(0.020)		(0.132)
Married		0.019		-0.254
		(0.023)		(0.175)
Fam. size		0.002		0.117*
		(0.008)		(0.060)
Observations	737	713	388	375

Note:The dependent variables are listed in the first row. All regressions include macro-area of learning and of current location and sector dummies. Regressions in even columns also include education dummies. Robust standard errors in parenthesis. Significance levels: *: 10%, **: 5%, *** : 1%. Significance levels: *: 10%, **: 5%, *** : 1%

Table 11: Managerial practices and ED at learning age, ANIA sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Management		Monitoring		Targets		People	
ED learn	4.082** (1.878)	1.406 (3.163)	5.473** (2.523)	1.349 (4.080)	5.434** (2.564)	3.407 (4.638)	2.989 (1.891)	1.562 (3.046)
ED today	0.999 (3.008)	3.045 (3.060)	0.947 (3.809)	3.697 (4.051)	-1.449 (3.943)	0.296 (4.083)	2.178 (3.037)	3.646 (3.125)
Male		0.275*** (0.075)		0.325*** (0.097)		0.311*** (0.103)		0.192** (0.075)
Age		-0.233 (0.254)		-0.339 (0.313)		-0.032 (0.366)		-0.238 (0.243)
Experience		-0.007** (0.003)		-0.010** (0.004)		-0.012** (0.005)		-0.002 (0.003)
Parent entrepreneur		-0.132* (0.070)		-0.108 (0.092)		-0.107 (0.095)		-0.195*** (0.067)
Married		0.071 (0.081)		0.044 (0.116)		0.080 (0.123)		0.143* (0.076)
Fam. size		0.072** (0.032)		0.080* (0.041)		0.058 (0.044)		0.068** (0.029)
Observations	388	375	388	375	388	375	388	375

Note: The dependent variables are listed in the first row. All regressions include macro-area of learning and of current location and sector dummies. Regressions in even columns also include education dummies. Robust standard errors in parenthesis. Significance levels: *: 10%, **: 5%, *** : 1%. Significance levels: *: 10%, ** : 5%, *** : 1%

A Appendix: Data details

The ANIA survey

The ANIA Survey for Small Business Companies collects data on a sample of 2,295 Italian firms and their top manager. The survey was conducted on a sample of small Italian firms, having up to a maximum of 250 employees, extracted from the total number of companies registered with CERVED - a business information agency operating in Italy which collects companies balance sheet data. The survey was conducted between October 2008 and July 2009.

Compared to the initial target set at the completion of 2,300 interviews, the investigation closed with 2,295 completed interviews. Participation in the survey entails the willingness to provide information on the use of insurance markets and details regarding the firm as well as the willingness of the top CEO/owner of the company to take part in a face to face interview with a professional interviewer. The first type of data was collected through a questionnaire filled out by each company, while the second type was obtained through an interview using the Computer Assisted Personal Interviewing) method. Partly because the survey took place during the financial crisis and partly because interviews targeted the CEO of the firm, the drop out rate was relatively high particularly among firms in the larger size categories lengthening. To account for this the survey design was slightly reviewed to include a larger number of smaller firms (with less than 20 employees) which were easier targets. This has caused the sample to be somewhat biased towards smaller firms than the population of businesses with up to 250 employees.

In the final sample of 2,295 firms, 98.5% are private, located in 59% of cases in north Italy, 19% in central Italy and 22% in the south and islands. In 85% of cases these are controlled by an individual within a family and a remaining 10% by a group of people without family ties.

A.1 The managerial practices survey

The data collection is based on a telephone double-blind survey technique and comprises a set of open ended questions that are subsequently evaluated using a scoring grid (Bloom and Van Reenen, 2010a; Bloom et al., 2012). Qualitative answers of SPs are then recoded into quantitative measures with a score ranging between 1 (worst) to 5 (best managerial practices). We have first set up a group of interviewers, trained them with a specific program and have then them run the survey. A comparison of the observable characteristics of the contacted group and those who participated shows no systematic differences in terms of firm characteristics, sector, area of location and of learning. Some small but statistically significant differences emerges in terms of entrepreneurs' characteristics (see Appedix Table A.1).

A.2 Variables definition

Here we provide a detailed description of the variables used in the paper whose definition is not obvious.

- *Entrepreneur, Def. I* Broad definition which includes self employed, partners of a company and owners that run an incorporated business.
- *Entrepreneur, Def. II* Narrow definition that only include partners of a company and owners that run an incorporated business.
- *ED learn* Entrepreneurial density (number of firms per capita) in the location where the entrepreneur was living at age 18.
- *ED today* Current entrepreneurial density (number of firms per capita) in the location where the entrepreneur (or the firm in the case of the ANIA sample) is located.
- *Mover* A dummy equal to 1 if current location of the individual is different from that in which she was born (SHIW sample) or was living at 18 (ANIA sample). In the SHIW sample, we distinguish between all individuals (Mover) and Entrepreneurs (Mover-Entrepreneur).
- *Moved before learning* A dummy equal to 1 if the individual was living at 18 in a different location with respect to the place of birth (ANIA sample).
- *Employees* Number of employees in the firm.
- *Years in control*: Number of years since the entrepreneur has acquired the responsibility of the management of the firm.
- *Risk aversion*: Indicator obtained using the answers to the question “If the investment strategy of the firm depends only on you, among the following alternative strategies which one would you pick up? One that yields a) Low profits but no risk of losses; b) Decent profits and rare losses; c) Good profits with some chances of incurring losses; d) Very high profits with a high risk of significant losses. The indicator is coded between 1 and 4, increasing in risk aversion.
- *Ambiguity aversion* Indicator obtained using the answers to the question “Think about two urns, each containing 100 balls either green or yellow. You win 1,000 euros if you draw an urn of the color of your choice. Choose the color. Urn 1 contains both green and yellow balls, in unknown proportion. Urn 2 contains 50 green and 50 yellow balls. From which urn would you rather draw the ball? a) Strong preference for urn 1; b) slight preference for urn 1; c) indifferent; d) slight preference for urn 2; e) strong preference for urn 2. The indicator is coded between 1 and 5, increasing in ambiguity aversion.

- *Confidence* Indicator obtained using the answers to the question “With respect to the average ability of your entrepreneur colleagues, in your job, do you believe to be: a) below average; b) average; c) above average. The indicator is coded between 1 and 3, increasing self confidence.
- *Optimism*: answers to the question borrowed from a standard Life Orientation Test (Scheier et al., 1994) “How much do you agree with the statement: overall I expect more good things than bad things to happen to me”. Coded between 0 and 10, with higher number indicating more optimism.
- *Satisfaction*: Indicator obtained from the following question to the entrepreneur “Notwithstanding the profits motive and only considering the other characteristics of your job, can you tell me if they give you more satisfaction or dissatisfaction?” Coded between 0 and 10, with higher number indicating more satisfaction.
- *Share of innov.*: Log of 1+ the share of sales in 2007 due to products or services either new or substantially improved introduced to the market between 2005 and 2007.

Table A.1: Comparison between re-interviewed and non re-interviewed entrepreneurs

	Re-interviewed			Non re-interviewed			Difference
	N. Obs.	Mean	Std. Dev.	N. Obs.	Mean	Std. Dev.	
TFP	388	2.50	.83	578	2.41	.94	.088
Sales per worker	388	4.93	1.06	574	4.86	1.24	.069
Employees	388	36.61	40.14	578	32.79	40.50	3.819
dmsect1	388	.03	.18	578	.02	.15	.011
dmsect2	388	.38	.48	578	.33	.47	.046
dmsect3	388	.01	.10	578	.00	.09	.001
dmsect4	388	.04	.21	578	.09	.29	-.052***
dmsect5	388	.23	.42	578	.24	.43	-.005
dmsect6	388	.03	.18	578	.04	.21	-.014
dmsect7	388	.25	.43	578	.23	.42	.012
dmarea1	388	.30	.461	578	.31	.46	-.008
dmarea2	388	.30	.45	578	.29	.45	.003
dmarea3	388	.20	.40	578	.19	.39	.016
dmarea4	388	.18	.38	578	.19	.39	-.012
dmarealearn1	388	.29	.45	578	.31	.46	-.021
dmarealearn2	388	.29	.45	578	.28	.45	.004
dmarealearn3	388	.21	.41	578	.17	.38	.041
dmarealearn4	388	.20	.40	578	.22	.41	-.023
educ	388	14.06	2.55	578	13.37	2.54	.684***
age entr	388	51.69	11.12	578	50.40	10.12	1.289*
Male	388	.71	.45	578	.66	.47	.052*
father entr	388	.45	.49	578	.36	.48	.092***
years since control	388	20.54	11.31	578	19.01	10.85	1.52**

Note: the table reports means and standard deviations of key variables for the sample of entrepreneurs that were re-interviewed and that were not. The last column report differences in mean. *** indicates significantly different at 1%, ** at 5%, * at 10%.

Table A.2: Entrepreneurial traits and TFP

	(2)	(3)	(4)	(5)	(6)	
Risk aversion	-0.029 (0.045)					
Ambiguity aversion		0.013 (0.021)				
Confidence			0.078 (0.078)			
Optimism				0.011 (0.017)		
Satisfaction					0.016 (0.018)	
Share innov.						-0.034 (0.022)
ED learn	3.515* (1.965)	3.330* (1.981)	3.575* (1.980)	3.603* (1.969)	3.255 (2.095)	4.762* (2.472)
ED today	0.133 (3.130)	0.074 (3.135)	0.247 (3.208)	-0.548 (3.179)	-0.191 (3.202)	0.199 (3.611)
LC learn	0.070 (0.124)	0.071 (0.125)	0.072 (0.126)	0.045 (0.127)	0.055 (0.126)	0.183 (0.140)
LC today	-0.342 (0.244)	-0.317 (0.244)	-0.341 (0.246)	-0.310 (0.252)	-0.321 (0.252)	-0.550** (0.272)
Male	-0.096 (0.065)	-0.105 (0.066)	-0.103 (0.066)	-0.096 (0.066)	-0.101 (0.067)	-0.070 (0.075)
Age	0.272 (0.229)	0.287 (0.231)	0.256 (0.233)	0.263 (0.233)	0.225 (0.242)	0.401 (0.272)
Years since control	0.002 (0.003)	0.001 (0.003)	0.002 (0.003)	0.002 (0.003)	0.002 (0.003)	0.001 (0.003)
Parent entr.	-0.099 (0.063)	-0.095 (0.063)	-0.101 (0.063)	-0.107* (0.063)	-0.114* (0.064)	-0.073 (0.072)
Married	0.076 (0.084)	0.078 (0.085)	0.064 (0.086)	0.068 (0.086)	0.054 (0.087)	0.055 (0.103)
Fam. size	0.022 (0.027)	0.022 (0.028)	0.027 (0.028)	0.024 (0.027)	0.023 (0.028)	0.025 (0.033)
Observations	924	912	902	909	900	707

Note: All regressions include year, education, macro-area of learning and of current location and sector dummies. Significance levels: *: 10%, **: 5%, *** : 1%

Table A.3: Managerial practices, TFP and firm size

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	TFP					Employment (log)				
management	0.177** (0.070)					0.596*** (0.075)				
monitoring		0.120** (0.057)					0.477*** (0.057)			
targets			0.087* (0.051)					0.346*** (0.054)		
people				0.221*** (0.076)					0.523*** (0.081)	
Innovation					-0.005 (0.036)					0.082* (0.046)
ED learn	5.846* (3.032)	5.859* (3.020)	5.814* (3.027)	5.922* (3.011)	6.102** (3.028)	2.663 (3.795)	2.545 (3.627)	2.366 (4.032)	3.114 (3.840)	3.857 (4.100)
ED today	-3.307 (4.531)	-3.230 (4.517)	-3.070 (4.567)	-3.520 (4.528)	-3.122 (4.615)	-5.358 (4.728)	-5.152 (4.655)	-4.516 (4.997)	-5.699 (4.773)	-5.163 (5.267)
LC learn	-0.036 (0.142)	-0.017 (0.141)	-0.018 (0.142)	-0.050 (0.139)	0.002 (0.139)	0.316* (0.161)	0.366** (0.161)	0.364** (0.166)	0.320* (0.167)	0.419** (0.179)
LC today	-0.052 (0.310)	-0.054 (0.312)	-0.031 (0.306)	-0.056 (0.310)	-0.027 (0.306)	0.028 (0.328)	0.007 (0.326)	0.097 (0.335)	0.043 (0.336)	0.093 (0.351)
Male	-0.202** (0.097)	-0.193** (0.094)	-0.181* (0.096)	-0.196** (0.096)	-0.153 (0.096)	0.020 (0.113)	0.028 (0.110)	0.076 (0.115)	0.082 (0.115)	0.144 (0.120)
Age	0.800*** (0.266)	0.813*** (0.266)	0.783*** (0.268)	0.802*** (0.263)	0.796*** (0.266)	0.578* (0.319)	0.635** (0.321)	0.513 (0.332)	0.581* (0.328)	0.575* (0.338)
Years since control	0.002 (0.004)	0.002 (0.004)	0.002 (0.004)	0.002 (0.004)	0.001 (0.004)	0.007* (0.004)	0.007* (0.004)	0.007 (0.005)	0.004 (0.005)	0.003 (0.005)
Parent entr.	-0.173* (0.095)	-0.181* (0.096)	-0.185* (0.095)	-0.154 (0.095)	-0.194** (0.096)	0.087 (0.102)	0.066 (0.103)	0.050 (0.104)	0.108 (0.105)	0.009 (0.109)
Married	-0.039 (0.137)	-0.029 (0.138)	-0.030 (0.136)	-0.061 (0.136)	-0.022 (0.134)	-0.054 (0.129)	-0.025 (0.129)	-0.031 (0.128)	-0.089 (0.132)	0.022 (0.138)
Fam. size	0.037 (0.042)	0.039 (0.042)	0.044 (0.043)	0.035 (0.043)	0.049 (0.041)	-0.015 (0.044)	-0.012 (0.043)	0.007 (0.045)	-0.008 (0.045)	0.015 (0.046)
Observations	370	370	370	370	370	370	370	370	370	370

Note: All regressions include year, education, macro-area of learning and of current location and sector dummies. Significance levels: *: 10%, **: 5%, *** : 1%