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The role of social and human capital among nascent entrepreneurs

Per Davidsson[a,1,2], Benson Honig[b,*]

[a]*Jönkoping International Business School, Jönkoping, Sweden*
[b]*University of Haifa and International Affiliate, Jönkoping International Business School, Mount Carmel, 31905 Haifa, Israel*

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Abstract

This study examines nascent entrepreneurship by comparing individuals engaged in nascent activities ($n = 380$) with a control group ($n = 608$), after screening a sample from the general population ($n = 30{,}427$). The study then follows the developmental process of nascent entrepreneurs for 18 months. Bridging and bonding social capital, consisting of both strong and weak ties, was a robust predictor for nascent entrepreneurs, as well as for advancing through the start-up process. With regard to outcomes like first sale or showing a profit, only one aspect of social capital, viz. being a member of a business network, had a statistically significant positive effect. The study supports human capital in predicting entry into nascent entrepreneurship, but only weakly for carrying the start-up process towards successful completion.
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1. Executive summary

Our knowledge about individuals who navigate various obstacles at the very earliest stages of entrepreneurial activity remains limited. Many people who begin the process of starting a

* Corresponding author. Tel.: +972-4-8249582; fax: +972-4-8249194.
E-mail addresses: per.davidsson@jibs.hj.se (P. Davidsson), benson@research.haifa.ac.il (B. Honig).
[1] Tel.: +46-36-15-64-30; fax: +46-36-16-10-69.
[2] Both authors contributed equally to the writing of this paper and are listed alphabetically.

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new business fail to achieve their goal, while others are quite successful. Do individuals who attempt to start businesses begin with different levels of human or social capital? Do these endowments affect their rate of success?

Previous research excludes many of the efforts that eventually result in termination before the emergence of the firm. Therefore, the bulk of research, which comprises much of our knowledge of entrepreneurship, suffers from selection bias, the result of sampling only successful emergent entrepreneurs or enterprises. Further, efforts to examine start-up attempts ex-post suffer from hindsight bias and memory decay.

This study examined nascent entrepreneurship by first comparing individuals engaged in nascent activities ($n = 380$) with a control group of non-entrepreneurs ($n = 608$), both drawn from a sample of the general population ($n = 30{,}427$) of Swedish adults. Within the group of nascent entrepreneurs, we then sought to explain differences in the frequency of gestation activities during an 18-month period, as well as two critical outcomes of successful emergence: first sales and profitability. Our primary objective was to help close a research gap regarding human capital and social capital influences on nascent entrepreneurs. We examined the comparative importance of various contributions and factors, such as personal networks, business networks, contact with designated assistance agencies and taking business classes, on the likelihood of successful emergent activity.

Our findings supported the role of formal education, as well as previous start-up experience, in predicting who among a cross-section of the general population would attempt to engage in any nascent activities. In contrast, formal education did not appear to be a factor in determining success in the exploitation process, neither in terms of the frequency of gestation activities over time nor in predicting those who succeeded with a first sale or a profitable venture. Other human capital measures, such as previous start-up experience and having taken business classes, were predictors of the frequency of gestation activities over time. They were not found to be important in determining the actual first sales or the profitability of the new enterprise, criteria we use to measure successful emergence.

Social capital variables were found to be very strong and consistent predictors in the analysis. We used measures for both bonding and bridging social capital, based on strong and weak ties. Overall, social capital was found to be higher in the nascent group than in the control group. Bonding social capital based on strong ties, such as having parents who owned businesses or close friends who owned businesses, was a good predictor in differentiating those engaged in nascent entrepreneurship from the control population, as was active encouragement from family and friends. Bridging social capital based on weak ties was found to be a strong predictor of rapid and frequent gestation activities, i.e., for carrying the start-up process further. Bridging social capital was also important in determining which of the nascent entrepreneurs would report a first sale or a profit—both conceived of as critical factors that determine successful firm emergence. Being a member of a business network such as a member of the Chamber of Commerce, Rotary or Lions, was significant and strong throughout the analysis. Those who were members of a start-up team were also more likely to have a comparatively rapid pace of gestation activities.

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