



# The cumulative nature of the entrepreneurial process: The contribution of human capital, planning and environment resources to small venture performance

Sigal Haber<sup>a,\*</sup>, Arie Reichel<sup>b,1</sup>

<sup>a</sup> School of Management, Ben-Gurion University of the Negev, Beer-Sheva, 84104, Israel

<sup>b</sup> School of Management, Ben-Gurion University of the Negev, Beer-Sheva, 84105, Israel

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## Abstract

The study is theoretically grounded in the resource-based view and applied to a service industry-tourism. It examined the performance of small ventures by utilizing an integrated dynamic model of entrepreneur choices and resource accumulation. Each phase in the process is added to previous one. Findings from 305 small tourism ventures revealed that the human capital of the entrepreneur, particularly managerial skills, were the greatest contributing factor to performance. This was followed by venture type. The study illustrates the unique nature of the entrepreneurial process among small ventures, often defined as “lifestyle businesses”.

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## 1. Executive summary

The growing literature on entrepreneurship processes includes relatively few studies that empirically explore and identify resource accumulation and its contribution to venture

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\* Corresponding author. Tel.: +972 9 7662762; fax: +972 9 7662762.

E-mail addresses: [s\\_haber@systrade.co.il](mailto:s_haber@systrade.co.il) (S. Haber), [arier@som.bgu.ac.il](mailto:arier@som.bgu.ac.il) (A. Reichel).

<sup>1</sup> Tel.: +972 8 6472193; fax: +972 8 6472920.

performance. Based on the resource-based view, the current study attempts to empirically examine, within the context of the tourism industry, an integrative model combining the entrepreneurial process with resource accumulation. It is argued that *Physical Capital Resources* (PCR), *Human Capital Resources* (HCR) and *Organizational Capital Resources* (OCR) affect small venture sustainability (Fig. 1).

The model presented focuses on examining the cumulative influence and contribution of resources in the entrepreneurial process starting from the core of the process, i.e., the human capital of the entrepreneur (HCR), followed by the selection of tourism venture type and location (PCR). Then, the entrepreneur moves on to the establishment phase, where a commitment to the actual creation of the business is made. This phase includes writing a business plan (OCR) and defining the planning and design characteristics of the tourism venture (PCR). In the settings of the specific study, these plans are required to obtain financial and advisory assistance from external sources (OCR). It is argued that the sequence of resource accumulation in the proposed model enables the venture to gradually become well established and ultimately, highly sustainable.

The empirical examination of venture performance entailed the division of performance into two main dimensions: *short-term measures* that reflect the current situation of the venture and *long-term measures* that indicate the strength of the small venture and its ability to survive in the long run. Since performance can be measured both objectively and subjectively, the following four categories were constructed: (1) *short-term objective measures*, (2) *long-term objective measures*, (3) *short-term subjective measures* and (4) *long-term subjective measures*.

Findings from 305 small tourism ventures in Israel showed that the entrepreneurial human capital (HCR), particularly managerial skills, was the strongest contributor to small venture performance from both short- and long-term perspectives. Venture type (PCR) showed the second greatest contribution to venture performance. Attractiveness of venture location (PCR), often viewed in tourism as a paramount resource, was found to have a relatively minor effect on venture performance. Between the two establishment phase variables, a written business plan, and planning and design characteristics, the role of the planning index (PCR) in explaining performance is greater. Finally, the contribution of external support, including financial and advisory assistance (OCR), was relatively minor.

Overall, it was found that the cumulative contribution of the resources to long-term objective performance (such as growth in revenues and number of employees) is relatively marginal. Although this might indicate relatively low chances for survival and sustainability, it is argued that the nature of the sample, i.e., small tourism ventures, often considered to be “lifestyle businesses”, can explain these findings. Specifically, such ventures are often concerned with survival and generating sufficient income to support the family and lifestyle of the entrepreneur and not necessarily with quick or ongoing venture growth.

The findings also highlight the value of service design in small ventures within a given service industry segment. Identifying the planning and design characteristics of the tourism venture is essential for improving service and customer satisfaction, as well as developing a long-term reputation as a unique and sustainable resource. Thus, the findings suggest that entrepreneurs should be aware of the different resources and performance measures and their specific roles in venture development. Finally, the paper highlights the major role of HCR and the need for training programs for entrepreneurs. In sum, this

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