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Social influence in career choice: Evidence from a randomized field experiment on entrepreneurial mentorship

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ABSTRACT

How do different sources of social influence impact the likelihood of entrepreneurship? We examine this question in the setting of an entrepreneurship class in which students were randomly assigned to receive mentorship from either an entrepreneur or a non-entrepreneur. Using a longitudinal field experiment with a pre-test/post-test design, we find that randomization to an entrepreneur mentor increases the likelihood of entrepreneurial careers, particularly for students whose parents were not entrepreneurs. Additional analysis shows the mentor influences the decision to join an early-stage venture, but not to become a founder. Performance data suggests that entrepreneurial influence is not encouraging “worse” entrepreneurship and may have helped students in joining or founding better-performing ventures. We contribute to the literature on social influence in entrepreneurship by examining the interaction between multiple sources of social influence and by using a randomized field experiment to overcome the endogenous process of tie formation.

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1. Introduction

Understanding drivers of entrepreneurial outcomes is important because startup firms are believed to play a significant role in driving technological change, economic growth and job creation (Schumpeter, 1934; Haltiwanger et al., 2013). Many scholars have examined the issue of why some individuals transition into entrepreneurship and others do not. Such explanations can be grouped into demographic factors (Roberts, 1991; Dunn and Holtz-Eakin, 2000), training and experience effects (Shane and Khurana, 2003; Lazear, 2004; Eesley et al., 2016), cognitive differences (Mitchell et al., 2000; Simon et al., 2000), financial and opportunity cost calculations (Amit et al., 1995; Iyigun and Owen, 1998), and differences in social networks and influence (Stuart and Ding, 2006; Nanda and Sørensen, 2010). We examine in further detail this latter category of explanations.

There is a large literature examining how social influence shapes entrepreneurial career decisions (e.g., Thornton, 1999; Kenney and

Goe, 2004; Tartari et al., 2014). Scholars have particularly examined how social relationships may serve not only as a pipe to channel the flow of information and resources (Podolny, 2001), but also as a vector to diffuse social norms (Granovetter, 1985; Coleman, 1988). As a result, social influence can change a person's intentions, beliefs and behaviors (French, 1956; Marsden, 1981), such as risk-taking in groups (Cartwright, 1971), polarization of political ideology (Baldassarri and Gelman, 2008), and the role of elites in corporate behavior (Mizruchi, 1989). In the context of entrepreneurship, studies have found that an individual's likelihood of becoming an entrepreneur increases with exposure to startup careers via social relationships such as familial ties (Sørensen, 2007; Greenberg, 2014), school networks (Stuart and Ding, 2006; Roach and Sauermann, 2015; Sauermann and Roach, 2012), and coworkers (Nanda and Sørensen, 2010). Overall, the literature suggests that an individual's decision to become an entrepreneur provides information about career options to others in her network and may even directly help them make similar transitions (e.g., Kacperczyk, 2013; Azoulay et al., 2014).

Yet our understanding of social influence is still incomplete (Sørensen and Fassiotto, 2011; Shalizi and Thomas, 2011). Since people engage in strategic networking, social ties are not formed randomly. Although the purposeful seeking of relationships has

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been well documented in various contexts (Hsu, 2004; Mitsuhashi and Greve, 2009; Ozcan and Eisenhardt, 2009; Vissa, 2011, 2012; Hallen and Eisenhardt, 2012), much of the literature on social networks and entrepreneurship ignores strategic networking behaviors and continues to assume either random tie formation or social network inertia. As Stuart and Sorenson (2007) :211) point out, “If actors are both strategic and differentially able to construct ties, then positions in social networks almost certainly arise in part as a function of the outcome variables of interest in the entrepreneurship and strategy literatures. Extant research has largely ignored these endogeneity problems and, as a result, bias likely contaminates many of the existing estimates of network effects.”

Therefore, evidence has not conclusively established a stylized fact that having an entrepreneur in one’s social circle enhances the likelihood of one becoming an entrepreneur. On the one hand, observational studies have found positive associations between one’s exposure to entrepreneurship through parents or coworkers and the likelihood of one becoming an entrepreneur (Stuart and Ding, 2006; Sørensen, 2007; Nanda and Sørensen, 2010). On the other hand, a recent study using a quasi-experimental design found that MBA students randomized to class sections with former entrepreneurs as fellow students were less likely to start businesses after graduation (Lerner and Malmendier, 2013). These conflicting empirical results demonstrate the challenge of causal identification in social influence research. Given that economic actors engage in purposeful actions in networking, it is important for researchers to identify exogenous variation in social ties in order to causally identify the existence (or the lack) of social influence on an individual’s career choice in entrepreneurship.

Beyond establishing a stylized fact, we suggest that the mechanisms of social influence are more complex than previously recognized. Social influence is not universal and its effects may vary with context (Liu and Srivastava, 2015; Roach and Sauermann, 2015). Even though social influence could come from multiple sources, the issue of how these sources interact in shaping an individual’s career choice is still under-investigated (e.g., Renzulli et al., 2000). For example, parents and mentors could have similar social influence on an individual’s choice of entrepreneurship, but are these parents and mentors complements or substitutes? Examining different forms of social influence allows us to gain a better understanding of the intertwined nature of social influence processes and to go beyond merely observing an association between social ties and individual choices.

Individuals also embrace entrepreneurship through different roles. Even though most efforts to promote entrepreneurship have focused on potential founders of startups, the majority of individuals contribute to entrepreneurship as “joiners” – early-stage employees who join founders in their efforts to start and/or grow companies (Roach and Sauermann, 2015). Founders and joiners are organizational roles that embody distinctive risk preferences and demand different sets of managerial skills (Lazear, 2004; Åstebro and Thompson, 2011; Roach and Sauermann, 2015). The effect of social influence on these two types of career choices could be very different. The prior literature rarely distinguishes the organizational roles of founder and joiner in defining an individual’s entrepreneurial career choice and this distinction could be crucial in causally identifying the role of social ties on entrepreneurship.¹

¹ Indeed, the established literature measures entrepreneurship very differently in their empirical studies. For instance, Stuart and Ding (2006) define an academic researcher as an entrepreneur if one sets up his/her own firms or joins a startup firm’s board of advisors. Nanda and Sorenson (2010) define an individual as an entrepreneur if he/she is self-employed. In contrast, Lerner and Malmendier (2013) define one as an entrepreneur if he/she sets up own firms or joins an early-stage

We bring a rich randomized experiment to bear in providing initial evidence on these important issues. To shed light on a novel source of social influence (mentors) on career decisions, we use longitudinal data, with a pre-test and post-test design, from a unique research design that incorporates a randomized experiment. We randomize on whether the social influence is entrepreneurial in nature to causally identify the impact on career decisions. This randomization allows us to overcome limits to identification in prior work due to purposive networking that plagues many of the pioneering research designs in this area.

Thus, this paper makes the following theoretical and empirical contributions. First, we show that social influence from entrepreneurs increases the likelihood of entrepreneurship. In addition, rather than examining student’s career intentions, as much of the prior literature does, we contribute by measuring the students’ actual career choices after graduation. In doing so, we also respond to calls in the literature for longitudinal research that examines roles, interactions, and populations beyond scientists and engineers in PhD degree programs and for research that can disentangle sorting and treatment effects in social influence (Stuart and Sorenson, 2007: 211–212; Roach and Sauermann, 2015: 2181). We examine a previously under-studied source of social influence – mentorship – and investigate how entrepreneurial influence from mentors and from parents interact with each other to jointly shape an individual’s career choice. We show that these two forces of social influence are substitutes for one another. Finally, we distinguish social influence effects by demonstrating that parental influence increases in an individual’s likelihood to found a firm yet influence via mentors only increases the chances of joining an early stage venture. In doing so, we contribute evidence that the impact of social influence appears to be dose-dependent, in the sense that choices which are riskier or further outside the norm requires a higher or more prolonged level of social influence.

2. Prior literature on social influence and entrepreneurship

To understand social influence, we need to think more clearly about its role and theoretical mechanisms. Its role can be best understood in the context of three main obstacles that potential entrepreneurs face: (1) lack of relevant skills, (2) general lack of information about entrepreneurial careers, and (3) lack of ties to resource providers.

2.1. Skills

Entrepreneurship differs from other careers in that there is no straightforward way to develop the necessary skills in advance or even to be sure which skills are necessary. An experienced entrepreneur, however, can teach tacit knowledge of the profession (Kram, 1985), such as how to evaluate business opportunities, pitch ideas to key resource holders, form early-stage teams, and navigate external investment. As Schumpeter (1934) was among the first to suggest, entrepreneurs are not simply bearers of risk but also have skills. Other work emphasizes the breadth of skills necessary for entrepreneurship in contrast to specialization (Eesley et al., 2014; Lazear, 2004; Åstebro and Thompson, 2011). Such breadth helps early-stage firms to “combine tangible and intangible assets and deploy them to meet customer needs” (Amit et al., 1990: 1222) and, ultimately, to get more return on investment (Lucas, 1978; Evans and Jovanovic, 1989).

venture. This variation in the definition of entrepreneurship shows the importance of making a clear distinction between the two organizational roles of founder and joiner and opens up the possibility that the seemingly conflicting results in these studies could be reconciled if such a distinction is taken into consideration.

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