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## "Class Matters" : Human and Social Capital in the Entrepreneurial Process

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# **“Class Matters”: Human and Social Capital in the Entrepreneurial Process**

## **Abstract**

This paper explores how entrepreneurial family background impacts upon the development of social and human capital resources and demonstrates how these affect the profitability and growth of new enterprise. Through a qualitative approach, we found that those entrepreneurs from higher socio-economic groupings had high endowments of human capital. Significantly, their businesses were characterised by greater profitability and growth potential. Those entrepreneurs also had social networks characterised by high endowments of human capital. Consequently entrepreneurs from higher socio-economic class had access to highly effective business support, and these networks provided a ‘platform’ from which opportunities could be both recognised and realised.

*Key words* : class; family; entrepreneurship; human capital; social capital.

## **1. Introduction**

The purpose of this paper is to explore the role of the family in the creation of human and social capital and to examine its effects on the entrepreneurial process. Whilst the volume of entrepreneurial research continues to expand, limited attention has been paid to the social aspects of enterprise creation. Furthermore, little research has been conducted on the specific area of entrepreneurial social capital, in spite of the insights gained from social capital in other disciplines. We wish to argue that human and social capital play an important role in enterprise creation because entrepreneurship is a socio-economic process which draws upon the social context in two distinct ways. First, entrepreneurs, as individuals, are likely to

be a product of their social environment. Consequently they will be conditioned by that environment; they may perceive opportunities in a manner that is influenced by their social background. We also argue that entrepreneurship is a social activity, in that customers and suppliers form part of the social web within which the economic elements of entrepreneurship are conducted. Hence the presence, or absence, and the form of social capital is likely to influence the nature of the business. If we are correct, understanding the formation and use of human and social capital will generate insights into these influences. Moreover, since the literature suggests that family and class position are key indicators of human and social capital, exploring these resources from these perspectives should develop our appreciation of entrepreneurship as a process. The concept of class is today often regarded as problematic, given that chances for social mobility have dramatically increased and distinctions between the traditional 'classes' have become increasingly blurred. We use the Weberian notion of class in our analysis, which proposes that classes can be understood to be differentiated economically by market capacity, which in turn gives rise to differences in the life chances of individuals (Abercrombie *et.al*, 1984). This concept of class is not as deterministic as other groupings. We use the class position of our respondent's parents to determine their social origins and how this affected their development of human and social capital. This paper therefore addresses the role of family as a producer of human and social capital and how this effects the entrepreneurial process.

The paper first presents a brief overview of the literature on the influence of family on human and social capital. We then apply this as a pre-understanding to the specific context of entrepreneurship to guide our fieldwork. Our data were gathered qualitatively, since our objective was exploration and theory development, rather than theory testing. We conducted a series of extended interviews with a sample of 14 entrepreneurs to develop short ethnographies of their entrepreneurial careers. These data were then comparatively analysed to check for patterns and themes of explanation. However, in this paper we present ethnographies from only two of our respondents in order to allow for in – depth analysis and explanation; to outline all 14 ethnographies would go beyond the scope of the paper and might obscure the clarity of our arguments. However, we do provide quotes from some of our other respondents to illustrate our points. We found human and social capital to be strongly linked to respondent's familial background. In particular, the class origins of our respondents seemed to powerfully influence the development of their human and social

capital resources. We also found that human and social capital appeared to strongly shape the nature of our respondents' businesses in terms of industrial sector, profit and growth. Those entrepreneurs in our sample who originated from relatively humble socio-economic familial origins appeared to have limited human and social capital assets. Moreover, they owned smaller and less profitable businesses than those entrepreneurs who originated from higher socio-economic groupings. We therefore conclude that class matters in the entrepreneurial endeavour.

## **2. Entrepreneurship as social practice**

The entrepreneur is acknowledged as central to the new venture creation process and the significance of the social aspects of the entrepreneurial process has been increasingly recognised. Young (1998) argues that economic actions are conditioned by ongoing structures of social relations. The entrepreneurial process is seen as contextual and contingent upon many influences (Gartner, 1988) but represents the dynamics of individual and context (Solymossy, 1997; Anderson, 2000). Grannovetter (1985) believed that behaviour is so constrained by social factors that to construe it as independent is misleading. In fact, Gibb and Ritchie (1981) claimed that entrepreneurship can be wholly understood in terms of entrepreneurial social groups. Clearly the notion of entrepreneurship as an individual act, operating in isolation from social process is *passee*. More recently, the social embeddedness of entrepreneurship has been confirmed in empirical analysis (Jack and Anderson, 2001; Whittington, 1992; Uzzi, 1997; Dacin et al, 1999).

Social embedding represents the relationship between the individual and context (Aldrich and Zimmer, 1986). It also represents the nature, depth and extent of social ties which are considered to be a configuring element of business process (Staber, 1998). Consequently the formation and development of a firm is related to the business founder's social world, and to all of the subjective configurations associated with this social world. The notion of social capital provides a way of understanding this relationship because social capital is a linking mechanism. However, social capital exists only as a relational artifact, it is broadly defined as an asset that inheres in social relations and networks (Leana and Van Buren, 1999; Burt, 1997). Nonetheless it has impact, because studies have pointed out that social capital is a productive

resource facilitating individual action, (Lin and Dumin, 1986; Lin, Ensel and Vaughn, 1981; Marsden and Hurlbert, 1988; Tsai and Ghoshal, 1998), business operation (Baker, 1990; Bates, 1997; Burt, 1992; Coleman, 1990) and that it creates value (Tsai and Ghoshal, 1998). Although social capital was originally described as a relational resource of personal ties which individuals use for development (Jacobs, 1961; Loury, 1971; Tsai and Ghoshal, 1998), a broader conceptualisation has emerged that presents social capital as sets of resources embedded in relationships (Burt, 1992). Cook and Wills (1999) argue that insights of considerable value can be generated by reference to the ways in which entrepreneurs create social capital.

### **3. The family as provider of human and social capital**

Studies examining the impact of family background on entrepreneurship have explored the extent to which having a parent who is self-employed can affect entrepreneurial propensity in offspring (Cooper & Dunkleburg, 1987; Duchesneau & Gartner, 1988; Scherer, Bradzinski, & Wiebe, 1991; Davidson, 1995; Aldrich, Renzulli, & Laughton, 1997; Delmar & Gunnarsson, 2000). However, explorations of the family in a socio-economic context have been less well explored in entrepreneurial research.

Whilst it is generally recognized that there is no clear pattern of cognitive orientation or behaviour that can predict entrepreneurial success (Hatch & Zweig, 2000), research has found that early socialisation in the family can help to shape the capital resources required to partake in an entrepreneurial endeavour in later life. David Goss (1991:51) notes, for instance, that research into the influence of family background upon entrepreneurial propensity has concentrated less on the effect it has on the development of personality characteristics and more on its role in providing access to social and material resources that may either facilitate or constrain entrepreneurial activity. Such resource-based theory has been traditionally conceptualised in strategic management research but in recent years has also been employed in the context of entrepreneurship (Hart, Greene, & Brush, 1997). The entrepreneurial literature has examined the ways in which an entrepreneur's capital resources may determine the potential viability of a new venture based on the particular capital resource endowment of the founder (Starr & MacMillan, 1990; Hart, Greene, & Brush, 1997; Chandler & Hanks, 1998; Honig, 1998).

The literature demonstrates that those entrepreneurs with a larger stock of capital resources will be better able to sustain and grow their businesses. This is because greater capital resource assets can act as a 'buffer' against random environmental shocks to which new firms are especially susceptible. Human and social capital have been recognized as vital to the entrepreneurial process as these capital resources are instrumental in providing a business founder access to additional financial, human and social capital required for new venture creation and success (Chandler & Hanks, 1988; Hart, Greene, & Brush, 1997). Human Capital theory (Becker 1975; 1993) has been traditionally employed in economics literature as an explanation of income differentials based on variations in individual and experience characteristics. Human capital is created by changes in individuals that facilitate new skills and abilities which enable them to act in new ways (Coleman, 1989:S101). Therefore, the human capital provided by founders' abilities can provide increased opportunity recognition and even entrepreneurial success. Like human capital, social capital is also an intangible resource asset, being embodied only in the structure of relations between actors and among actors, and has no existence independent of this framework (Coleman, 1998). Social capital originates through the changes in relations among persons that facilitate action, and thus like human capital, is vital in the resource acquisition strategies required for new venture creation and success.

James Coleman (1989) examined the ways in which social capital is employed in the creation of human capital. He argued that the social capital within both the family and immediate community is vital to the reproduction of human capital (Coleman, 1989: S109). Coleman began from the premise that the family background of an individual should not be considered as a single entity, but is analytically separable into the three components of human, social, and financial capital. The financial capital of the family is the family unit's level of wealth or income that can provide physical resources to help foster achievement. The human capital of the family can be measured in approximation by the parents' level of educational attainment which can potentially shape the cognitive environment of offspring. Lastly, Coleman argued that the social capital of the family is vital for a child's intellectual development. The social capital of the family inheres in relations between children and parents and this facilitates the continuance of human capital down the generations (Ibid). Further research has found that the quality of social capital within



families, as measured by the degree of social integration, is negatively associated with economic distress such as experience of unemployment, low income, or economic strain (Voydonoff, Donnelly, & Fine, 1988). It may therefore be deduced that families from higher socio-economic strata can utilise social capital to foster the accumulation of both human and financial capital in offspring.

Bourdieu (1986,1993) explored the link between familial background and the reproduction of certain forms of capital and has stated that “economic capital is at the root of all other types of capital” (1986:252). Bourdieu was concerned with how economic capital underpins all other forms of capital and attempted to demonstrate the way these forms interact with wider social structures to produce social inequalities (Morrow, 1999:755). Bourdieu argued that social life may be conceived as a multi-dimensional status game in which individuals draw upon their economic, social, and cultural capital resources in order to compete for status, or what he termed “symbolic capital” (Holt, 1998:29). Bourdieu recognised that all three kinds of capital resources interrelate. According to Bourdieu, cultural capital is socialised within the family and is later reinforced within the educational system. It consists of a set of socially distinctive tastes, skills, knowledge, and practices that are embodied within individuals as implicit practical knowledges, skills, and dispositions (Ibid). Like many class theorists, Bourdieu maintained that the ‘incorporated cultural capital’ of the individual (the core of class-specific *habitus* that is socialised within the family in relation to particular styles, modes of representation, use of language, forms of social etiquette, confidence, and self-assurance) remains the key to acquiring coveted academic qualifications (i.e. human capital). For example, children born into higher socio-economic groupings have the opportunity to receive high levels of formal education at institutions that foster critical abstract thinking and communication (Holt,1998:30). Such institutions further provide the opportunities for interaction with other ‘cultural elites’ from similar familial backgrounds. Bourdieu believed that only in this way can the dominant class maintain its traditional claim to the key leadership positions within enterprises.

We would therefore argue that Bourdieu’s theory will also apply to the context of entrepreneurship in that those entrepreneurs who originate from higher socio-economic groupings will be more likely to have acquired the necessary forms of human, social and cultural capital that will yield distinct advantages in the

new venture creation process. It is also likely that those entrepreneurs who originate from higher socio-economic strata will have a larger financial capital resource base from which to draw.

#### **4. Similarity, status, class and social networks**

Holt (1998:64) argues that to be 'cultured' is a potent social advantage in society, as it can provide access to desirable education, occupations, and social networks. Conversely then, to grow up in conditions that deny the accumulation of cultural capital can entail exclusion from these propitious social circles. Burt (1992) articulates social capital as based on social similarity, shared affiliations and activities. Close social relationships, defined as those which involve a degree of mutual interdependence and interconnected activities (Kelly et al, 1983) can enhance social influence:

*“ Many studies... have shown that ties of sympathy, a common past, group stability – everything that links us together – increase reciprocal influence.”* (Moscovici, 1985:367).

Social capital is also embodied within personal networks of social relations which have been demonstrated to assist in the resource – acquisition strategies required for new venture creation and success. Evidence has shown that resources are more likely to be distributed preferentially when the members of a group share a common identity (Kramer,1991); are friends (Aaron et al,1991); perform interdependent tasks (Greenburg, 1979) and/or share demographic or other similarities (Tesser, 1988; Tsui, Egan, & O'Reilly, 1992). It can be deduced from this analysis that members of similar socio-economic strata are more likely to have individuals from similar backgrounds in their social networks, as social similarity has been demonstrated to increase both liking (Lincoln & Miller,1979; Tsui & O'Reilly,1989) and influence (Cialdini,1987). Common lifestyles, based on similar resources, have been found to be associated with higher levels of sociation; people will choose to interact more frequently with those to whom they are socially most familiar (Prandy, 1988). Indeed, Byrne, Clare, & Worchel (1966) found that shared economic status was a basis for interpersonal attraction among individuals. Useem & Karabel have extended this analysis further in describing social capital as :

*“ class – linked contacts or network ties that can be crucial to organisational and professional advancement.”* (1986:185).

It could therefore be argued that the social influence processes embodied within status comparisons may serve as a mechanism through which social capital affects the allocation of resources required for entrepreneurial development. Further, theory suggests that if one’s social network provides social support which is beneficial in reducing the costs of self-employment, those with more effective social network ties may possess a greater incentive to attempt self-employment, *ceteris parabus* (Allen, 2000). Because individuals from higher socio-economic groupings (higher class positions) are more likely to possess greater financial and human capital endowments, (following the social similarity thesis), then such individuals are more likely to have social contacts who are in positions to provide effective support. They, themselves, will also have relatively large financial and human capital resources in comparison with individuals from lower socio-economic groupings. Further, entrepreneurs from higher socio-economic groupings are also more likely to have individuals within their social network that are familiar with the business environment, or may themselves be entrepreneurs. Such network ties should prove instrumental in facilitating opportunity recognition as Low and MacMillan note,

*“ Opportunities do not drop from the sky. Opportunities are created within and among existing organisations as a product of ongoing networks of relationships and exchanges. Opportunities come most frequently to people located at advantageous positions within networks. Furthermore, exploiting an opportunity requires certain resources (human capital, marketing, sales, etc.). The same type of network relationships and contacts needed to identify opportunities are also necessary to obtain the resources required to exploit opportunities.”*

*( Low & MacMillan,1988).*

Based on our review thus far, entrepreneurs originating from higher socio-economic groupings with large endowments of both human and social capital are more likely to be located at *“advantageous positions*

*within networks*” and are thus more likely to be able to both recognise and effectively exploit business opportunities. Further, such network ties are also more likely to be in positions to provide additional human and financial resource assets. Paradoxically however, entrepreneurs with such instrumental network ties may have less need to draw upon them for additional resources, as they themselves are likely to possess relatively large endowments of both human and financial capital required for new venture creation and success.

However, it is not only the *type* of social network ties that can be important to entrepreneurial success; many studies have found that the *diversity* of social network ties is also of central importance to an entrepreneur’s ability to recognise and pursue business opportunities. Mark Granovetter (1973) developed an argument linking the diversity of social ties in which a person is implicated to the scope of opportunities open to that person. (Aldrich & Zimmer, 1986:18). Granovetter posits that successful entrepreneurs are more likely to be found in networks where their centrality is high and in which they are connected to an array of diverse information sources, or “weak ties”. He maintains that the pool of information available to an entrepreneur can be more easily accessed through ones weak ties, as “those to whom we are weakly tied are more likely to move in circles different from our own and thus will have access to information different from that which we receive” (1973 :1365). Weak ties are arguably more likely to link members of different small groups together than are strong ties, which tend to be concentrated within particular groups (Ibid). Thus, Granovetter proposes that it is an entrepreneur's weak network ties that can assist in helping to identify opportunities in providing novel information, while strong network ties often only generate redundant information. It could therefore be postulated that a successful entrepreneur will have weak ties to those in a position to provide accurate and timely information and/or advice needed to recognise and pursue opportunities in the external business environment.

Another theory which examines the importance of the diversity of network ties is Burt's (1992) structural hole theory which describes social capital as a function of brokerage opportunities in a network (1997 :339). This theory outlines the information and control advantages of acting as the broker of relations between people otherwise disconnected within a given social structure (Ibid). The disconnected people

stand on opposite sides of a hole in social structure and this structural hole indicates that people on either side of the hole have access to different and diverse flows of information (Ibid). Thus, an individual who has relations with contacts on both sides of the hole will have access to both information flows. The more structural holes that an individual can extend across, the richer the information benefits their social network will present. Thus, following Burt, social networks rich in structural hole bridges can present greater opportunities for entrepreneurial behaviour, because such individuals will have knowledge of more rewarding opportunities and will also be better able to exercise control over them (Burt, 1997 : 341).

Our review suggests that human and social capital should be important in the entrepreneurial process. We expect that individuals with a high endowment of social capital will have more instrumental resources upon which to draw in the formation and development of their businesses. We can also postulate that those from a higher socio-economic class can be expected to have a richer endowment of both human and social capital. Consequently we might also expect them to have businesses characterised by high growth and profitability potential. This view forms the basis of our “pre-understanding” as an informed approach to our exploratory field work. We wish to ascertain whether the mechanism of familial human and social capital operates to influence business and to what effect.

## **5. Methodology**

We were interested in exploring any relationship between class position and the entrepreneurial process. Our preunderstanding from the literature review led us to expect that entrepreneurs from a higher class position will have greater human and social capital resource endowments. We have noted that a high endowment of these capitals should, in turn, lead to a richer capability in the entrepreneurial process of opportunity recognition and exploitation. It is not our intention to test this hypothesis, but to explore the linkages to develop understanding of the process. We therefore used a qualitative approach to data collection and analysis.

Using a qualitative ethnographic approach (Morgan and Smircich, 1980) fourteen established entrepreneurs were judgementally selected as our sample. Using a judgmental sampling technique (Hussey & Hussey, 1997 : 147), our respondents were selected on the basis of their entrepreneurial experience and particular socio – economic background. Our sample consisted of entrepreneurs who originated from differing socio – economic backgrounds in order that comparisons of businesses started up by entrepreneurs from contrasting social origins could be made (PLEASE INSERT TABLE 1 HERE). A qualitative approach was used because we were dealing with soft issues which are not amenable to quantification, searching for the meanings which lie behind actions (Hammersley, 1992). Further, our objectives were related to understanding, rather than measuring (Oinas, 1999). The data collection was conducted over a three month period, with some respondents being interviewed twice, and others several times. The interviews varied in duration from a couple of hours to several hours, whilst the direction of interviews was determined by the form of the emerging data. Ethnographic techniques of open interviews were employed to explore the cause and effect relationship of class and the entrepreneurial process.

The analysis of the data explored themes in the responses of entrepreneur using the constant comparative method (Silverman, 2000) and analytic induction (Glaser and Strauss, 1967). Whilst the entrepreneurs in our sample are not representative of the entrepreneurial population, they do provide useful data on process. The methodological techniques provided sufficient depth of data to allow a meaningful analysis of the entrepreneurial process in context, to gain an understanding of the role of class for each respondent. Quotes from the data are used to provide valuable supplements, to add voice to the text and help categorise the data (Wolcott, 1990). We also attempt to link the practices with the background of the respondents inductively, and demonstrate veracity by telling a convincing story (Steyaert and Bouwen, 1997). The semi – structured interviews were used to develop “mini ethnographies” of the respondents in order to gain a full appreciation of their family background, educational and work experiences, their social networks, and the nature of their businesses. After the raw data were written up as ethnographic accounts, they were then analysed using grounded theorising techniques (Glaser & Strauss, 1967) to determine emergent themes and explanations.

Our approach is justifiable on a number of counts; our concern for validity and reliability aided the development of analytic insights (Wiseman, 1979). This reflects Chandler and Hanks (1994) suggestion that longitudinal and qualitative studies are useful methods to explore the way resource capabilities are developed and environmental opportunities are identified. Dacin *et al* (1999:3) referred to such research as being characterised by taking on really rich empirical contexts and by getting “dirty” hands (Hirsh, Michaels and Friedman, 1990), in qualitative work\_you try to make sense out of the social world of the people studied by attempting to reconstruct their view of their world (Wiseman, 1979). We recognise these research techniques have some inherent limitations. The study area was restricted, the small number of entrepreneurs studied and the methodology employed inhibit generalisability (Larson, 1992; Chandler and Hanks, 1994). However, the value of the research design lies in its capacity to provide insights, rich detail and thick description (Geertz, 1973).

We present our data and findings as two short ethnographies of contrasting cases from our data. We only present two cases because of the need to provide detail and description, to provide all the cases would take too much space with little added benefit. These cases represent extreme examples of the use of “capitals” and are also polar examples of class positions. Consequently they are exemplars, rather than representative of the population, and they are intended to illustrate our findings. In order to give voice to our respondents, where appropriate we include direct quotations from the entrepreneurs in our sample.

## **6. Our Respondents**

### *6.1. Sadie Smith*

Upon meeting Sadie one is always greeted with a warm smile which connotes her friendly and sincere nature. She has lived in Aberdeen all of her 45 years, knows many local people and has an abundance of friends. Her compassion is such that Sadie will never refuse a favour to someone in need, although her independent nature often prevents her from accepting any form of reciprocation in return. She is a very likeable character bursting with energy, constantly on the move from one place to the next. She usually

wears jogging suits and trainers, reflecting both her energetic disposition and preference for comfort over pretence. This is also demonstrated by her appearance in general; she rarely wears make – up or styles her hair in any particular fashion. However, one could say that this adds to her down – to – earth appeal – with Sadie, ‘what you see is what you get’.

Sadie and her four siblings were brought up by her mother after she was widowed when the children were very young. Sadie’s mother worked as a cleaner and the family lived in one of the poorer neighbourhoods of Aberdeen. Sadie left school at 15 with no qualifications, although a year later she set up a stall in a local market selling bric – a – brac. However, this market soon closed down and when Sadie was 17 she moved to selling leather goods in another market with her husband. When this market also closed, she and her husband decided to open a shop with their left over stock. This first business property was acquired through obtaining a £500 loan from her uncle, alongside the £1000 they had managed to save. Over time this business grew, and eventually Sadie opened a further two retail shops and even bought 8 Rolls Royces to start a car wedding service.

Sadie admitted in her interview that she had little idea about formal finances and this had prevented her from approaching the bank to borrow additional capital. Sadie does not recall how much profit she ever made on any of the businesses, simply stating that it was “*enough to take us from a council flat into our own house*”. Sadie’s lack of financial expertise seems to have contributed to the failure of her businesses, although she and her husband traded for nine years in total.

## *6.2. Social capital and social support*

Although Sadie started her businesses with limited human and financial capital, she did have a wide range of people in her social network, although they were not entrepreneurs. Sadie received some financial help from her family in getting the business off the ground, despite the fact that their human and financial capital assets were themselves limited. Sadie not only sold her goods to family and friends but would also employ them to act as selling agents. For example, when Sadie opened up her second business, a jewellery shop,



her cousin took a case of jewellery each week to sell to her colleagues. She realised this was a good way to promote the business, and soon recruited other family members and friends to do the same until eventually she had several people working for her in this way:

*“ In the end we had quite a few agents taking a case of jewellery to their work every week who were all people that I knew personally and they benefited from the commission.”*

Sadie told us how she was also given assistance from casual acquaintances. For example, one woman had been a regular customer when Sadie traded from a market stall. Over time, Sadie became friendly with this customer and when she had a shop for sale, she offered Sadie first refusal. When asked about the methods she employed to attract custom to her businesses, Sadie replied:

*“We gained a lot of custom by building up a good reputation, mainly through people that we knew personally who trusted us. Because Aberdeen is such a small city everyone is kind of like one big family and everyone seems to be related to someone that you know. If you sell one person something and they are happy with it, they will in turn tell their family and friends and so in this way your customers really advertise your business for you in the most positive and profitable way, which is through word of mouth.”*

Sadie also worked to attract customers by developing a personal rapport with them over time:

*“ Even if customers didn’t want to buy anything, they always knew that when they came into my shop that they could spend 10 – 15 min. talking to me even if it wasn’t about anything in particular. When they were looking for a gift, they would come to me because they had become friendly with me and a relationship of trust had been established. Giving people your time and speaking to them can make all the difference.”*

Consequently, Sadie believes that her social skills have been the factor that has most contributed to her success as: *“you have to have the ability to get on with all different kinds of people.”*

In summary, Sadie was born into a lower – working class family with few financial resources. After leaving school at 15, Sadie gained retail experience through trading on market stalls until she and her husband acquired enough resources to open up a small retail shop. Sadie and her husband eventually opened up a further 3 small retail shops and a car wedding service as the businesses grew. However, although Sadie was very obviously entrepreneurial in her mind set, her limited human capital restricted her choice of business sector to retail. Sectors such as retail are characterised by low barriers to entry, and typically generate only modest profit and growth potential. Although she remained trading for nine years, Sadie’s businesses failed to grow significantly or yield any substantial profit. All four of Sadie’s businesses went bust following the breakdown of her marriage.

### *6.3. Paul Thompson*

Upon walking into a room, Paul is immediately noticed; he is 6’5’, and of slim build. His boyish good looks belie his 32 years but his voice is deep and authoritative with a distinctively refined English accent. He usually dresses in formal attire – expensive suits and silk ties, even when socialising. He wears a gold Rolex and drives a brand new BMW. In sum, Paul’s appearance is that of a successful businessman/entrepreneur. Despite his rather pretentious appearance however, Paul is generally down – to earth and those who know him personally are witness to his generous and obliging nature. He enjoys socialising very much, although he is also extremely conscientious and usually works 10 – 12 hour days.

Paul was raised in a middle – class family. His father was an engineering manager for a large oil company and his mother was a naval officer before deciding to become a housewife. Paul finished school at 16 having completed 8 ‘O’ grades, after which he then got a job with an off-shore oil company. Having worked in this position for a couple of years, Paul decided that he wanted to pursue a career in the travel industry and left to go and work with another company as a business travel consultant. Paul was soon promoted to manager, although he quickly became dissatisfied with his employer’s “*short – term vision*”. He and three of his colleagues decided to start up a business travel firm, and after intensive planning, launched Business Travel Services four years ago. Paul and his partners spent hundreds of man – hours

planning for the business, and approached business start – up agencies, venture capitalists, and banks to obtain the £250,000 needed for start –up. In the four years of its operation, Business Travel Services has grown from an initial 7 employees to currently employing 22, and the business turnover currently stands at around £8 million.

#### *6.4. Social capital and social support*

Paul used his social capital to help get his business started and to acquire additional human capital. Whilst working for the offshore company he got to know the people working in the business travel department and from them learned much about this line of work. The knowledge he accumulated through interacting with the business travel consultants secured him a position in another company as a consultant. It was through working in this position that he gained the knowledge, skills, and expertise of the business travel industry which eventually enabled him to start up his own business travel firm. We can see how Paul's human and social capital worked together to enhance both his position and his stock of human capital.

Whilst working as a business travel consultant, Paul became friends with two co – workers and when the three of them grew increasingly dissatisfied with their career prospects working for this company they decided to go into business together. It would have been unlikely that Paul would have been able to start up Business Travel Services on his own despite his extensive human capital assets, given the initial size and capital intensive structure of the business. A large proportion of the company's start – up capital was raised through attracting the interests of other entrepreneurs who they knew personally and were therefore willing to invest in the business. Paul and his business partners thus employed their social capital and drew upon their business networks in order to gain the equity needed to start their own business travel firm.

Paul is also very adept at drawing from the social capital base of others to grow his business. For example, he has recently employed one of the top men in the world who is renowned for growing and building travel

related businesses. Paul conceded that they were very lucky to have been able to recruit this individual as his services are in high demand. Before joining Business Travel Services, this man had worked for the company that supplied Business Travel Service's reservation system. Paul used his contact with a sales rep to meet and eventually employ this key figure.

Paul and his partners had also used their social capital to persuade some of the staff who worked for their original employer to leave and work for them when they started up their business. In doing so, Paul and his partners benefited from hiring staff whom they knew as competent and hard – working, as well as saving on the cost of advertising for staff. Since starting up Business Travel Services, Paul now head – hunts for new employees, or is introduced to them in business circles, often at social events:

*“ I have seen myself talking to potential employees in nightclubs and if they answer key questions to my satisfaction, I offer them a job on the spot before another recruiter has a chance to employ them.”*

Paul also managed to persuade many of his employer's clients to follow him. Thus, Business Travel Services benefited from both a solid staff and client base upon which to build the foundations of the new company. Paul believes that his ability to establish personal relationships with his clients has greatly enabled his success, because people have grown to know and trust his business ability:

*“ We are small enough to build personal relationships with our clients which ensures that they come back and give us repeat custom.”*

Paul did not rely on any assistance from family or friends in starting up his business, although he did remark that he had received valuable advice and assistance from people whom he knew less well:

*“We did already know several key people in the business travel industry who we used to bounce ideas off of and who offered us advice.”*

Upon starting up their business venture, Paul and his partners also sought the assistance of local start – up agencies in order to acquire further business skills and knowledge. They received advice about their business plan and cash – flow analysis, and when they should seek the assistance of solicitors.

In summary, Paul was born into a middle – class family with relatively high endowments of financial, human and social capital resources. Paul completed his schooling with 8 ‘O’ grades, a relatively modest educational achievement, although this combined with his social capital and networking abilities enabled him to gain employment in his chosen field and build upon both his human and financial capital resources. Paul was also able to effectively utilise his social capital in starting up his business with two co – workers, who themselves possessed high financial, human, and social capital resource endowments. The combined capital resources of these three business partners has enabled Business Travel Services to reach high levels of both profitability and growth since the company was established four years ago.

## **7. Capital analyses**

Given her limited human and financial capital assets, Sadie’s social capital may be seen as the key component of her capital resource base that enabled her to go into business for herself. However, although Sadie’s social capital proved fundamental to the survival of her businesses, the social ties she drew upon and her relationships with such people were primarily of an affective nature, consisting mainly of family and close friends. These types of social networks correlate to Granovetter's notion of "strong ties" which have been demonstrated to constitute a relatively dense social network that does not allow for a variety of information flows.

The majority of people within Sadie’s social network themselves possessed limited human and financial capital assets and thus were largely unable to offer any business advice or to provide her with physical resources. Throughout her entrepreneurial career, Sadie’s limited human capital and lack of business knowledge prevented her from gaining access to social networks in the wider business community. This meant that she had no one to provide her with additional resources or information. Moreover, she had no

one to share business ideas with. If Sadie had been more in touch with key people in her business environment they might have been able to enhance the profitability and growth of her businesses through providing her with resources, information, and business support.

Paul provides for a contrasting picture when compared to Sadie and her businesses. In addition to utilising his own extensive human capital assets, Paul was able to employ his social capital to help get his business started. Paul did not have to rely on any assistance from family or friends, although he did consult a wide range of people known to him through business ties that proved instrumental in developing his business. Unlike Sadie, Paul sought the assistance of fellow businessmen and start – up agencies in order to obtain advice. Through this, Paul was able to form an extensive "weak tie" network which provided him with access to a greater pool of business information and knowledge. Through the effective utilisation of his social capital resources, Paul was also able to fill Burt's (1992) notion of a "structural hole" in recruiting a high -status individual renowned for growing travel – related businesses to act in a 'broker role' between individuals within Paul's present business environment and those individuals in environments in which he wishes to expand his company.

Paul was also able to use his social capital to obtain both clients and staff from his previous employer to create a solid business foundation from the time of start – up. Most of the individuals within Paul's social network originate from the same middle – class background as himself and themselves possess extensive human capital. This meant that Paul could draw upon the knowledge and expertise of these individuals, as unlike Sadie's social ties, they *were* in positions to provide additional resources and/or business support. These factors are likely to have contributed to the rapid growth rates and substantial profits of Business Travel Services. It may thus be argued that the social capital and network ties of Paul and his partners are a key component of their company's competitive advantage.

## **8. Opportunity recognition**

The quintessential essence of entrepreneurship is the recognition and pursuit of opportunities in the business environment. Thus, the viability of a business venture will depend on how an entrepreneur comes to recognise opportunities and decide which opportunities to pursue. This process is largely determined by the extent of an entrepreneur's human and social capital, as these assets will at least in part determine the particular lens through which we view the world, ourselves, and the business environment.

The nature and extent of an entrepreneur's social capital assets can influence their ability to recognise and pursue opportunities, depending on the nature of the social ties available to them in their social network. Entrepreneurs with high endowments of human capital seem to interact with those individuals with human capital endowments similar to their own, and likewise for those with limited human capital assets. This is demonstrated in the social networks of Paul : *“ One of our directors is one of the top men in the world for building up travel related businesses...his contacts not only within the business travel industry but also in various other aspects of travel such as e – commerce will benefit our company greatly as we are currently looking to expand into other travel related fields”*. Paul and his partners were able to recruit this individual through being introduced by a mutual business acquaintance. Paul's high levels of human capital allowed him access to useful business circles in his industry, which has proved very instrumental in better enabling him to recognise opportunities in the wider business environment.

Conversely, Sadie's social networks consisted mainly of friends and acquaintances who themselves possessed limited human capital assets. Sadie did not know any other entrepreneurs at the time of her business start – up, and thus had no one to turn to for advice or assistance. This is likely to have limited Sadie's ability to recognise business opportunities as she was not in touch with the “gatekeepers” of her business environment, or those individuals that have access to key business information and resources.

Human capital can empower entrepreneurs to recognise and pursue opportunities in the business environment, even independent of its effects on social capital. This can be demonstrated using examples from some of our other interview respondents. In fact, it seems that a direct correlation can be drawn between an entrepreneur's human capital assets and the extent to which they are able to recognise and pursue business opportunities. This is exemplified in the statement made by one entrepreneur in our

sample, Steve, who possesses high endowments of human capital: “...as you gain knowledge of your market and business sector, you begin to be able to better judge the environment and spot opportunities quicker. You also become a better judge of character as you meet more and more people, and you also learn when to be cautious and when to take risks.” Steve understands the importance of acquiring as much knowledge as possible in order to make business decisions based on calculated assessment of opportunities, and recognises that there is always room to improve and expand his human capital assets: “I attend various courses in relation to what I am gearing the business toward at the time, and I most often book myself on these courses so that I can learn additional skills that I may be lacking.” Steve’s extensive human capital assets have enabled him to recognise and act on opportunities of a relatively large scale; he has recently established an e – commerce division of his professional recruitment business that has provided the company with increased growth and profitability.

Although the entrepreneurs in our sample with limited human capital assets were also able to recognise and pursue opportunities in the business environment, the nature of such opportunities usually provided for only moderate growth and profitability potential. For example, Sadie stated in her interview: “I saw that I could quickly turn opportunities in money, almost right away.” She noted that after time, people began to know her as “a bit of a wheeler and dealer” and would offer her anything that they wanted to get rid of, such as bikes, jewellery, and clothes. She would then bump into someone that she knew who would be looking for such items, and would sell them; her motto became “turn your trash into cash”. This process continued until Sadie opened her first small retail shop. We can see from this that although Sadie did pursue opportunities, these opportunities only provided for limited profitability and growth potential.

Another entrepreneur in our sample with limited human capital assets, Stanley, also demonstrated limited opportunity perception in stating: “If we had really bit the bullet and went to the bank for a loan and sought to attract custom from farther afield then the business would probably have proved to be more successful. However, at the time we thought we were making good enough money and all we were really interested in was drawing a good wage every week – this got us into a comfortable routine which discouraged us from approaching the bank for more capital and getting ourselves into debt.” Stanley’s



reluctance to approach the bank for more finance and to attract more custom to the business may be a result of his lack of confidence, resulting from his limited human capital and consequently also his limited ability to pursue more profitable opportunities. As theorised by Krueger (2000), if we perceive ourselves as being competent then it is more likely that we will perceive a given course of action as feasible, and thus we will be more adept at spotting and taking advantage of opportunities. Opportunity recognition essentially depends on situational perceptions of controllability and self – efficacy (Krueger, *et al*, 2000).

James is an entrepreneur in our sample who possessed extensive human capital assets. He perhaps best illustrated how the ability to recognise profitable business opportunities demands a proactive mindset : *“The creation of a company is not a linear development – you have got to be prepared to move off the track and try new things depending on how the business environment is moving at any one time. There are a lot of forks in the road - you have to decide which path to take as you encounter more and more forks, or as different opportunities unfold.”* The ability to recognise and act on opportunities seems to depend upon one’s degree of confidence in their business abilities and their degree of self – efficacy, which is enhanced by greater endowments of human capital.

## **10. Conclusion**

This paper has demonstrated the importance of entrepreneur’s human and social capital assets and the extent to which these resources combine and interrelate in the new venture creation process. However, the entrepreneurship literature does not extensively or consistently explore the relationship between familial socio – economic background and the development of human and social capital and the effect that these capital resources have on the new venture creation process. As a response to this, drawing from both entrepreneurial and sociological literature we have shown how some of the processes by which human and social capital are developed in the family and later on in the educational system. We have further shown the ways in which the accumulation of these capital resources may be at least in part determined by familial socio – economic background. The evidence from our data is that the nature and extent of an entrepreneur’s human and social capital assets strongly influences the nature of a new business and its potential for

profitability and growth. Lastly, we have illustrated the ways in which human and social capital resource assets can affect an entrepreneur's ability to recognise and pursue opportunities in the business environment.

Approaching the study of entrepreneurship from a cross – disciplinary perspective has enabled us to explore some of the mechanisms through which human and social capital assets are developed and employed in the new venture creation process. Our key finding was that the most significant indicators of the extent of an entrepreneur's social and human and social capital resource assets were related to a founder's socio – economic background. An examination of relevant sociological literature shows that the socio – economic position one is born into carries with it important implications for the subsequent development of human and social capital in the educational system and later on in the workplace. In many ways this runs counter to the entrepreneurial myth that “a poor boy makes good”.

Through our interviews, we have observed a socio – economic process that has its founding in the class position of the family. The social position one is born into carries important implications not only in terms of financial capital, but in terms of the development of human and social capital also. We have found that the extent and type of human and social capital endowments of business founders from different socio – economic backgrounds vary. Those entrepreneurs in our sample that originated from higher socio – economic groupings had higher endowments of financial, human, and social capital resources compared to those entrepreneurs from more modest backgrounds. Most importantly, our findings have shown that greater capital resource endowments allow for greater business profitability and growth potential. Those entrepreneurs in our sample who had high capital resource endowments owned businesses characterised by high growth and profitability (PLEASE INSERT TABLE 2 HERE).

Our analysis has shown that human and social capital resources interrelate in several respects. For example, we found that entrepreneurs with high endowments of human capital were more likely to have individuals within their social networks who also possess high human capital endowments, as social similarity has been found to increase both liking (Lincoln & Miller, 1979 ; Tsui & O'Reilly, 1989) and influence (Cialdini,

1987). Therefore, entrepreneurs with high human capital endowments will benefit from their social networks, as they constitute an important means of gaining access to business information and advice. In contrast, we found that those entrepreneurs in our sample who came from lower socio – economic backgrounds with limited human capital endowments are more likely to have individuals in their social networks that themselves possess limited human capital. As a result, these entrepreneurs have few social network resources that can provide them with business support or advice. It may be deduced from this analysis that the nature and extent of one’s social capital and social network resources will also affect an entrepreneur’s ability to recognise and pursue opportunities that can present a business with increased chances for profitability and growth. Social networks can act as a kind of “platform” from which opportunities in the external environment can be more easily perceived. Those entrepreneurs with high levels of human capital who have access to network resources that are in positions to provide them with business advice and support will have a higher platform from which to stand and observe the external environment.

From our analysis, we can conclude that an entrepreneur’s familial socio – economic background can impact upon the new venture creation process in several respects. The social position one is born into strongly influences the opportunities they have to develop human and social capital in the family, school, and later on in the workplace. Human and social capital are instrumental resources, and each are needed to ensure entrepreneurial growth and success. Entrepreneurs originating from higher socio – economic groupings will have greater opportunity to acquire and develop these resources, and are thus more likely to start businesses characterised by high growth and profitability potential in comparison with entrepreneurs with lower human and social capital resources. If the findings presented here are indicative of the wider population of entrepreneurs, we can therefore conclude from this analysis that “class matters” in the entrepreneurial endeavor.

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**Table 1**

<u>** Respondents from Lower Socio – Economic Origins **</u>			
<u>Name</u>	<u>Age</u>	<u>Business</u>	<u>Age of Business</u>
Sadie Smith	45	3 small retail shops and a car wedding service.	All four businesses traded for nine years before closing down.

Billy Shepherd	47	Building / Roofing services	Eight years
George Wilson	52	Small restaurant / take away	One year
Ray Romero	36	Sandwich shop	Four years
Anthony Jones	42	Small restaurant	Three years
Stanley Stirling	55	Asbestos Removal	Two years
<b>** Respondents from Higher Socio – Economic Origins **</b>			
Paul Thompson	32	Business Travel agency	Five years
James MacDonald	40	Oil well service provider	Eight years
Steve Davies	44	Specialist recruitment firm	Three years
Les Richards	42	Management consultancy firm	Sixteen years
John Higgins	32	Property maintenance company	Three years
Simon Boyd	44	Sports shop	Traded for five years before closing down.
Mark Jensen	21	Computer / Internet company	Two years
Robert Fosters	57	Real Estate Company / food store chain	Has been in business for over 30 years.

**Table 2**

<b>** Respondents from Lower Socio – Economic Origins **</b>
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<u>Name</u>	<u>Start – Up Capital</u>	<u>Current Turnover</u>	<u>Numbers Employed</u>
Sadie Smith	£1,500	N/A : Out of business	3 employees
Billy Shepherd	£2,000 + £12,000 overdraft	£730,000	10 employees
George Wilson	£2,000 + 15,000 overdraft	£220,000	12 employees
Ray Romero	£1,000 + £3,000 overdraft	£120,000	3 employees
Anthony Jones	£3,000 + £4,000 bank loan	Unknown	5 employees
Stanley Stirling	£10,000	£200,000	9 employees
<b>** Respondents from Higher Socio – Economic Origins **</b>			
Paul Thompson	£250,000	£10,000,000	22 employees
James MacDonald	£50,000	£60,000,000	50 employees
Steve Davies	Unknown	£15,000,000	15 employees
Les Richards	£15,000	£700,000	7 employees
John Higgins	Unknown	£100,000	3 employees
Simon Boyd	£17,000	N/A : Out of business	3 employees
Mark Jensen	Unknown	£ 70,000	5 employees
Robert Fosters	£ 100,000+	£50,000,000	100+ employees