



# Human capital in social and commercial entrepreneurship<sup>☆</sup>



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## ABSTRACT

We advance research on human capital and entrepreneurial entry and posit that, in order to generate value, social entrepreneurship requires different configurations of human capital than commercial entrepreneurship. We develop a multilevel framework to analyse the commonalities and differences between social and commercial entrepreneurship, including the impact of general and specific human capital, of national context and its moderating effect on the human capital-entrepreneurship relationship. We find that specific entrepreneurial human capital is relatively more important in commercial entrepreneurship, and general human capital in social entrepreneurship, and that the effects of human capital depend on the rule of law.

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## 1. Executive summary

Social entrepreneurs create value, but not in the same way as commercial entrepreneurs; they provide goods and services that are neither supplied on the market nor addressed by the government. In so doing, they create social welfare while the financial viability of their venture is their key constraint. In contrast, commercial entrepreneurs maximise private welfare and capture the residual for themselves. Some of the value that social entrepreneurs create is therefore not incorporated in market transactions directly: instead their objective is to generate positive external effects for the community from their activities. Because social and commercial entrepreneurs differ in their goals and in the way that value is created, some of the necessary skills are common but other skills and abilities may need to be different to succeed in social and commercial entrepreneurship respectively. Hence the two types of entrepreneur may not be drawn from exactly the same pool of talent, which has implications for the relationship between education, human capital and the choice of social as against commercial entrepreneurship as well as the context in

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which the new venture creation occurs. These issues have not been systematically tackled in the literature and it is our intention to address this gap.

We start with distinguishing between *general* human capital, which can be employed across a variety of occupations and industries, and *specific* human capital, for which the return to the individual is specific to an occupational context; say a job, sector, or occupation. We argue that, in evaluating the decision to become either a social or a commercial entrepreneur, it is important to consider how specific and general human capitals are combined. Both types of entrepreneurs will rely on entrepreneurship-specific skills and knowledge. However, because the goals of the organisation are different, and more complex, additional abilities may be needed for social entrepreneurship. In particular, social entrepreneurs must identify and exploit opportunities that are both financially viable and can generate positive external effects. They therefore need to attend simultaneously to potentially conflicting social and economic logics in their enterprise in addition to developing capabilities for relating to a wide set of stakeholders. Furthermore, their actions may need to be strongly embedded in local communities, in order to mobilise resources and to stimulate the wider social impact. Hence, we argue that general human capital, which is associated with a more diverse cognitive perspective, may have relatively greater significance for social entrepreneurs.

Moreover, one needs to consider the motivational aspects of education which reach beyond the rational calculations of human capital theory. Precisely those human capital characteristics that enhance individual capacities to realise positive externalities may also be those that motivate people to search for those opportunities in the first place. This is an example of the socialising effects of education; values will influence an individual's cognitive alertness, and in turn, those values will be affected by what we are able to notice and understand. As a result, we hypothesise about the relationship between specific versus general human capital and entry into commercial as against social entrepreneurship, based on both the ability-enhancing (economic approaches) and the motivation-shaping effects (psychological approaches) of human capital.

The balance of the effects of these factors will be moderated by the nature of the institutional environment in which entrepreneurs operate. Institutional economists highlight the rule of law as the fundamental aspect of institutions. Institutional structures influence the returns to be obtained from human capital across different occupational choices. For example, a weak rule of law increases the risk of expropriation of entrepreneurial returns, more so than of income from employment, shifting the balance of incentives in favour of employment. Hence, both commercial and social entrepreneurs are more common under strong constitutional-level institutions. Furthermore, the returns to different types of human capital in commercial as against social entrepreneurship may be sensitive to institutional contexts. Following this observation, we explore whether the rule of law has a moderating effect on how different types of human capital affect the occupational choice of entrepreneurship comparing its social and commercial forms.

Our research questions therefore span personal characteristics and national contexts, which suggests multi-level modelling as the appropriate methodology. We test our hypotheses utilising data from the Global Entrepreneurship Monitor, a cross-national individual data set, which we combine with indicators of the rule of law and other macro-economic data.

This study contributes to research on both human capital and on entrepreneurship, especially social entrepreneurship. It broadens our understanding of the role of human capital in entrepreneurship by newly considering socialisation effects of general human capital alongside the well-established ability effects of human capital. Analysing human capital in relation to social entrepreneurship highlights a broader insight, namely the need to acknowledge differences among entrepreneurs, their preferences, and the varying returns they seek. Moreover, we broaden the understanding of the role of human capital by considering context: combining human capital theory and institutional theory.

Our research helps to answer whether social and commercial entrepreneurship compete for the same entrepreneurial talent; we find that they do so only to a limited extent. In fact, we further corroborate a 'crowding in' effect whereby social entrepreneurship attracts somewhat different talents into the entrepreneurial process. Thus, social entrepreneurship has value not only as a way of addressing social problems, but also as a route into entrepreneurship for those who otherwise would remain in employment. Our work has implications for policy makers, but also for practitioners, who may find it valuable to consider entrepreneurial teams in terms of their relative contributions of entrepreneurial talent and other skills.

## 2. Introduction

Many aspects of the venture creation process, such as the necessity to innovate, to take risks, and to coordinate resources (Schumpeter, 1934), will be common to social and commercial entrepreneurs. In this respect, the two occupations may draw on a similar entrepreneurial talent pool. However, while social and commercial entrepreneurship both create value, they differ in the primary objective of the activity. Social entrepreneurs identify opportunities arising from "neglected problems in society involving positive externalities", which are neither incorporated into the market nor addressed by the government (Santos, 2012, pp.342). By realising those opportunities, social entrepreneurs create "social welfare" (Mair and Marti, 2006; Zahra et al., 2009) while taking the financial viability of their venture as a constraint. In contrast, commercial entrepreneurs maximise "private welfare" by creating value while capturing the residual for themselves (Santos, 2012). Because the goals and the way in which value is created differ for social and commercial entrepreneurs, they may need to rely upon different skills and abilities; implying that the two types of entrepreneur may not be drawn from exactly the same pool of talent.

Human capital is important for all entrepreneurs in making occupational choices in the labour market between paid employment and venture creation (Parker, 2009 for a review). It is useful to follow Becker (1964) in distinguishing between general human capital, which can be employed across a variety of occupations and industries, and specific human capital, for which the derived value is specific to a context, say a job, sector or occupation (Acemoglu and Pischke, 1998). We argue that, in

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