



# The disposition to become an entrepreneur and the jacks-of-all-trades in social and human capital



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## ABSTRACT

This paper studies how an individual's composition of human and social capital affects his or her disposition to become an entrepreneur. Our theoretical analysis is an extension of Lazear's (2005) jack-of-all-trades theory in combination with the idea of bricolage of experiences and their effectuation in the disposition to become an entrepreneur. Our primary conclusion is that it is not individuals with a higher level of human or social capital but rather individuals with a more balanced and combined portfolio of human capital, social capital and experiences that are more disposed than others to become entrepreneurs. We use survey data from a sample of more than 2000 German students to test this hypothesis and find that the jacks-of-all-trades, i.e., individuals who are more balancing and combining different skills rather than specializing in a few, are more likely to become entrepreneurs. On the other hand, the masters-of-one, i.e., the specialists, are better off being employees and rightly prefer to do so.

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## 1. Introduction

Entrepreneurship is often seen not only as the cornerstone of innovation, growth and social welfare (e.g., Blanchflower, 2000; Acs and Audretsch, 2003) but also as the key to higher individual income and well-being (e.g., Hamilton, 2000; Kawaguchi, 2002; Benz and Frey, 2004). However, most people never consider starting their own business but rather restrict their occupational choice to being an employee. In the US and most European countries, the rate of entrepreneurship in the workforce has stabilized at around 10% (reaching a maximum of 15%) over recent decades (OECD, 2000, 2005; Thurik, 2003). The rate of academics becoming entrepreneurs is even lower than average, despite the fact that entrepreneurs with an academic background are in general more successful (Moog, 2004; Acs, 2006). This result raises two important questions as already mentioned by Blanchflower and Oswald (1990): what determines whether a young student decides to become an entrepreneur and what individual characteristics drive occupational choice?

In this paper, we theoretically and empirically explore these questions by examining students' entrepreneurial disposition and

how it is shaped by their endowed and acquired sets of combined resources of human and social capital and experiences. We do so by combining formerly separate results on necessary resources for entrepreneurs, i.e. human capital, social capital as well as experiences and other factors. In contrast to former studies, we argue that an integrative approach that combines the formerly separately treated factors into one portfolio (of resources) helps to better understand why some young academics are more than others disposed towards entrepreneurial activities. We argue that the combined experience stemming from a balanced set of social and human capital (a) allows students to act as a bricoleur, i.e. giving them the chance to act and use their contacts and knowledge when necessary and effective in a situation to developing a business idea, and (b) allows students to finding creative solutions to realize these ideas. Here we follow Anderson and Jack (2008) who argue that entrepreneurial practices combine a variety of roles each demanding different skills, knowledge and capabilities. We combine them with Sarasvathy's (2001) arguments regarding effectuation. This process of effectuation begins with given ingredients and utensils and focuses on using them to find one of many desirable solutions (Sarasvathy, 2001). This selection of solutions given a certain set of skills (human and social capital) and experiences can also be seen as another kind of opportunity recognition and thus, entrepreneurial choices.

Thus, our study will contribute novel results to entrepreneurship research in five ways. First, we provide empirical evidence showing that differences in disposition to become an entrepreneur

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depend on differences in portfolios of human capital; thereby we also present another test of Lazear's jack-of-all-trades theory. Second, we extend Lazear's idea and look not only at the portfolio of human capital (traditional skills as measured by education and job experience) but also at the portfolio of social capital in order to explain the disposition to become entrepreneur (Davidsson and Honig, 2003; Florin et al., 2003). Social capital is another resource that—like in Lazear's model any type of human capital—has to be balanced for individuals if they may want to become entrepreneurs—because becoming an entrepreneur at many points is a social process leading to networks and people to work with (Hartog et al., 2008). Third, we use advanced proxies to measure the balancing of a portfolio (of human and/or social capital) in an innovative way, i.e. we introduce new operationalizations for combined skill variables. With z-transformations for different types of human and social capital variables, we obtain a more accurate measure of the balancing effect in a portfolio and thereby of its effect on entrepreneurship disposition. Fourth, following effectuation theory, we explain the effects by arguing that entrepreneurs face dynamic situations, where both, human and social capital are important resources that always have to be kept in balance. Fifth, using a sample of more than 2000 German university students, we are able to show that it is indeed the balancing and combination of skills and not so much the level of skills or the level of social capital that matters. A balanced human capital portfolio is not sufficient to foster entrepreneurship if it is not complemented by a portfolio of social capital and vice versa.

The outline of the paper is as follows. First, we present our theoretical explanation and derive hypotheses on the intention to become an entrepreneur. Second, we describe the data set, which consists of detailed information of approximately 2000 students, and we introduce the empirical estimation method and variables we will use. Third, we present our findings and finally discuss our results and limitations of our study and conclude.

## 2. Who is more likely to become an entrepreneur?

### Theoretical explanations

#### 2.1. Human and Social Capital

Human capital is one of the factors often mentioned, with the assumption that a larger stock of human capital encourages entrepreneurship (e.g., Davidsson and Honig, 2003). However, this is not sufficient to explain the observed differences in entrepreneurship rates; in fact, it raises new puzzles. For example, many entrepreneurs have rather low levels of human capital, such as the owner of a streetcorner fish and chips shop, which clearly does not fit with a traditional human capital explanation of highly skilled individuals becoming entrepreneurs. In addition, we observe that the educational level in general has constantly increased over recent decades but that the entrepreneurship rate has not risen in the same way, which is also inconsistent with a traditional human capital explanation.

Therefore, this paper is based on the jack-of-all-trades theory of entrepreneurship introduced by Lazear (2005). The novelty in Lazear's approach is that it is not the level of any single skill that matters for the decision to become an entrepreneur but the balance of skills in an individual's portfolio of skills. Entrepreneurs differ from employees in that they must be sufficiently well versed in a whole set of entrepreneurial skills. Some entrepreneurs may have balanced skills on rather low levels (such as the owner of the small fish and chips stand) and others on rather high levels (such as the founder of a bio-chemical start-up in Silicon Valley). Employees, on the other hand, are specialists who work for others and whose talents are combined with those of other specialists (employees)

by the entrepreneurs. Therefore, entrepreneurs are above all characterized by balanced skills (on any level) whereas employees are characterized by specialized skills portfolios.

Several studies have tested the theory and provided preliminary supporting evidence: Lazear (2004, 2005) shows in a cross-sectional study that MBA students from Stanford who took classes in more study fields and who play more types of roles in the labor market are more likely to become entrepreneurs rather than employees. Lazear (2005) operationalized the balance of skills through adding the different roles. Other studies test Lazear's approach in the same vein. Wagner (2003) tests Lazear's research with German Social Economic Panel (SOEP) data of all kinds of individuals and confirms Lazear's idea. In the study of Tonoyan et al. (2009) that works with data of the IAB panel, it becomes evident that women in Germany are jack-of-all-trades less often than men. Women change their fields of professional training—occupations as well as specific jobs—significantly less often than men, and they become entrepreneurs less often, supporting Lazear's idea that less varied human capital investment leads to less entrepreneurial activity. Backes-Gellner et al. (2010) find for Switzerland, using Swiss household panel data, that entrepreneurs and employees indeed choose systematically different educational paths: entrepreneurs choose mixed and more balanced educational paths, whereas employees choose pure and more specialized educational paths. Baumol (2004), with U.S. and international data, and Astebro (2006) with Canadian data give further evidence that the accumulation of a balanced skill-mix fosters entrepreneurship. Hartog et al. (2008) show for the balance of cognitive and social abilities that more balanced individuals in the Netherlands become entrepreneurs more often than others. However, using Italian panel data, Silva (2006) finds that the spread of knowledge across different fields does not increase the probability of becoming an entrepreneur. Brixy and Hessels (2010) reach similar conclusions using German and Dutch GEM data: with respect to broadness of human capital, they do not find a significant effect for the number of fields of experience having an impact in becoming self-employed. Elfenbein et al. (2010), testing the breadth of activities on the job, find that these measures have little impact on the relative pay of workers at firms of different sizes; thus, people might not be more willing to become self-employed due to income considerations. Oberschachtsiek (2009) finds varying effects as well. Lechmann and Schnabel (2011) also find that self-employed individuals perform more tasks and that their work requires more skills than that of employees. However, unlike Lazear's theory predicts they also find that self-employed individuals also need more expert skills than employees and they find only limited support for differing human capital investments of employees and entrepreneurs.<sup>2</sup> Overall, we conclude that most findings suggest that the level of skills as well as their balance may be important for entrepreneurship. But in detail results are still inconclusive particularly for different countries and different types of workers. One explanation for these inconclusive results could also be that an important explanatory variable is missing.

We argue that it is social capital that is missing and therefore introduce social capital as a second category factor in an individual's portfolio of resources that we consider to be important for entrepreneurship. We include social capital because entrepreneurship is known to be a socio-economic process and a social activity. Economic elements of entrepreneurship are conducted in a social web of individuals like parents and friends, potential customers and

<sup>2</sup> As our empirical analysis only includes individuals who pursue an academic degree, we concentrate on balance of skills. However, in a sample with more heterogeneous individuals, one should consider more carefully the problem of level in addition to balance.

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