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BRAINS OVER BRAWN? ENTREPRENEURIAL HUMAN CAPITAL AND OPTIMISM IN THE GREAT RECESSION (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**BRAINS OVER BRAWN? ENTREPRENEURIAL HUMAN CAPITAL
AND OPTIMISM IN THE GREAT RECESSION**

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Principal Topic

Entrepreneurs often depend on optimism in order to start, persevere and succeed in their business. But research also shows that too much entrepreneurial optimism can lead to poor new venture performance. In this paper, we argue that the concept of entrepreneurial optimism can be better understood in the context of a large-scale event in the macro-environment. Taking the recent 2008 financial crisis as our context, we consider the effects of individual entrepreneurs' human capital characteristics on their optimism about the impact of the recession on their new ventures.

Method

The data is drawn from the 2008 wave of the Kauffman Firm Survey (KFS) consisting of 2362 four-year old firms. The KFS is a highly representative sample of new ventures in the United States. Entrepreneurs in the sample were asked to respond to this question: "How much did the nation's recent financial problems, which became highly visible in 2008, affect [NAME BUSINESS] during calendar year 2008? These responses yielded the dependent variable in our study. We use hierarchical and subsample analyses to assess the influence of founders' human capital on entrepreneurial optimism during the 2008 economic recession.

Results and Implications

Our findings show that although founders' educational human capital is positively related to entrepreneurial optimism during the 2008 economic recession, founder's occupational human capital (i.e. startup experience) has a U-shaped relationship with entrepreneurial optimism. Furthermore, we show that these effects are more pronounced for new ventures with sole founders than for ventures with multiple founders. Our research contributes to better understanding of the influence of human capital on entrepreneurial optimism. We demonstrate that educational attainment has a positive influence on founders' optimism about the effects of a recession. In contrast, the effect of entrepreneurial experience on optimism is more complex, suggesting that founders with some but limited entrepreneurial experience are less optimistic than founders that have founded more than four ventures previously. By distinguishing between the influence of educational and occupational human capital in the context of the most significant recession in recent history, this study offers novel theoretical and empirical insights into the mechanisms of entrepreneurial optimism.

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