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ELEMENTS OF A PROCESS OF HUMAN CAPITALIZATION BY DEVELOPING-WORLD ENTREPRENEURS



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ABSTRACT

With an explicit focus on informing the entrepreneur training programs that permeate the developed world, we undertake a qualitative study of entrepreneurial learning in this context. Through iterating heavily between data and theory, we develop a number of theoretical insights. Chief amongst them are insights into how social networks act as a means of furthering the learning process for entrepreneurs who face novel situations – almost always challenges – and lack adequate understanding to take appropriate action. We also develop theory around the role that social networks play in building a broader community of learning around an enterprise.

INTRODUCTION

Poverty is a wicked, ubiquitous, and persistent problem, and is a central goal of international development organizations that have, to date, spent over \$2.3 trillion towards this end (Easterly, 2006). Entrepreneurship is widely held as a backbone of such programs (Fox, Haines, Muñoz, & Thomas, 2013; ILO, 2012), as neither large or medium private employers, nor governments, can create sufficient jobs. By 2020 in sub-Saharan Africa, for instance, employment in the micro enterprises of the informal sector will increase by 53 million to nearly 140 million (Fox et al., 2013). Scores of new enterprises will be started, and scores more will have to be run effectively to survive. The success with which they do this is inextricably tied to poverty alleviation.

Entrepreneurship's necessity has been recognized, with part of the \$2.3 trillion funding entrepreneur training programs in developing countries. The ILO's widely used program has trained 6 million people (ILO, 2014). However, the learning taking place within these programs is behavioural – learning to do specific tasks, such as bookkeeping – which, though helpful, is ill-suited to entrepreneurship's dynamism (Corbett, 2005), and to the generally experiential nature of entrepreneurial learning (Cope, 2005; Minniti & Bygrave, 2001). Along these lines, research has shown entrepreneur training programs to have limited (but positive) impacts on profitability, job creation, and survival (de Mel, McKenzie, & Woodruff, 2014; Valerio, Parton, & Robb, 2014). Furthermore, despite the vast majority of entrepreneurs not having training, they run vibrant businesses. Clearly, learning still occurs outside of training programs for individuals with minimal education and no wage employment experience.

With this in mind, we undertook a qualitative study of entrepreneurial learning using Ghana as our research site across three research trips. Our aim was not to say entrepreneur training programs are ineffective. Instead, we aimed to develop a theoretically grounded understanding of entrepreneurs' extant learning behaviours in an effort to inform such programs. In this study we ask: *how do entrepreneurs in the developing world draw on social networks as part of their learning processes?* We focus on this question as social networks are not well integrated into existing literature

at the micro foundation level, and are very salient in this context. We drew heavily on experiential learning as put forward by Kolb (1984), and extended into the entrepreneurship literature through the work of several scholars (Cope, 2003; Corbett, 2005).

BACKGROUND THEORY

It is widely held that learning is critical for entrepreneurs across all stages of the venture (Cope, 2005; Wang & Chugh, 2014). Fundamentally, this is because entrepreneurship is a dynamic, uncertain, and complex undertaking that involves many inter-related elements (Shane & Venkataraman, 2000; Shane, 2003). Regarding these different elements, Wang & Chugh (2014) point out in their recent literature review that “there remains a paucity of studies on learning in [opportunity discovery and exploitation], especially on the opportunity exploitation process.” As a result, we believe it is theoretically relevant to explore this critical and understudied component of entrepreneurship. Furthermore, our motivating phenomenon is situated in the developing world, where entrepreneurship is heavily based on the replication of existing opportunities (Alvarez & Barney, 2014). Because of this, the critical task in entrepreneurship is not one of opportunity recognition and start-up, as these are heavily based on extant templates. Instead, the critical task is the continued running of the enterprise, given the myriad challenges presented by a dynamic environment to a population with low levels of education and formal work experience.

Perhaps the most widely used learning theory in entrepreneurship is that of experiential learning (Wang & Chugh, 2014), of which Kolb’s (1984) framework forms the foundation. The framework is a cyclical process where individuals cycle through learning from concrete experiences, reflecting on these, conceptualizing about them at an abstract level, and actively experimenting by taking action. The application of this framework to entrepreneurship can be seen inside the box of Figure 1: Inside the box (and environmental factors) is Kolb’s experiential learning process applied to entrepreneurship. Outside the box are the social network mechanisms we induced that contribute to the experiential learning process. Signals come in from the venture, some of which are apprehended by the entrepreneur. These apprehensions are then combined with existing conceptualizations about the world in a reflective process which leads to new comprehension and a new conceptualization of the enterprise and/or environment in which it acts. Stemming from this, actions are taken in the enterprise, which lead to outcomes and a new set of signals.

If past experiences provide an adequate conceptual base upon which to comprehend incoming signals, then the experiential learning process stands on its own. However, this is by no means always the case, especially for entrepreneurs who have limited education and limited prior experience. Despite this, subsistence level entrepreneurs manage to successfully entrepreneur. The question then becomes: how?

Methods

We approached our study with a theory elaboration methodology (Lee, Mitchell, & Sablinski, 1999), as we were cognizant of the fact that there is much extant theory. At the same time though, we recognized that this literature incompletely covers critical areas, leading us to actively explore these theoretical dark spots (Lepoutre & Valente, 2012). The first author, who has considerable experience in Africa, collected three waves of data in Koforidua, Ghana: Nov/Dec 2013, Apr/May 2014, and Nov/Dec 2014 consisting of 92 interviews total. In Nov/Dec 2014, repeated interviews of 15 additional entrepreneurs totalling 48 interviews and 17 bouts of observation took place. Across all 130, interviews lasted from 15 to 90 minutes, averaging 35 minutes. During and immediately

after the interviews and observation periods, 350 pages of hand-written notes were taken. Broadly, the interviews and observation query and track the learning process of entrepreneurs, including the involvement of social networks. To uncover the underlying process, entrepreneurs were asked how they learned to run their business, what challenges they have and do encounter, and what sources of knowledge they rely on. Data was systematically coded in NVivo 10, drawing out the multiple roles of social networks.

FINDINGS

We identify and delineate two distinct mechanisms through which social networks contribute to the post-start-up learning of entrepreneurs: learning to manage novel situations, and endowing the business with additional vested learners. Through these diverse learning mechanisms, our informants were able to continuously adapt their enterprises to changing environments, and to make up for learning that previous education and experiences left them ill-equipped to manage.

Learning to manage novel situations

We found our informants to be regularly confronted with situations that existing knowledge structures left them ill-prepared to handle. They expressed to us that managing these situations was critical to their success, as these novel situations almost always took the form of potentially detrimental challenges. These novel situations fell into two broad categories: situations where the entrepreneur could not envision a solution to the challenge, and thus needed guidance; and situations where the entrepreneur *could* envision a solution, but lacked key knowledge.

Providing Guidance: Situations that the entrepreneur cannot envision a solution for. Many times, our informants relayed to us that they confronted novel situations where they were at a loss over what to do. Such situations ranged from not knowing how or to who to extend financial credit, to livestock dying unexpectedly, to (as was commonly relayed) not knowing how to effectively manage customers. A particularly extreme case was that of Ike, the owner of a cell phone shop. As Ike proceeded to relay, he actually used to own four shops:

I had almost like 4 shops. But I think because of lack of knowledge on running the shop I...make plenty mistakes. I was not able to take care of these shops, so I [lost] all the [other] shops...I didn't do much [advertising] and that is one thing I lack. But the only thing I [used to] think is that I'm not having enough goods. So maybe if I try to advertise [that] I have this, I have that and then [customers] come to this place, and they don't get [the product]; it's going to do away from us [customers will not come back].

Ike felt that advertising was a bad idea when he might sell out of items he was advertising, and then permanently lose customers who came looking for it. To him, it would be best to make sure he had adequate inventory before attempting advertising. However, having seen three shops fail, Ike recognized there was an issue, and actively sought to learn by asking another cell-phone seller:

A friend who has been in business for a long time told me, "It doesn't matter whether you have it or you don't have it, just advertise yourself. Let them come just tell them what you have. Maybe that person will come, maybe that person wants laptop you don't have laptop, but you have laptop charger."...So if maybe I advertise myself and they come around and they ask, "Oh do you have laptop?" I say, "No I don't have laptop but I have the battery, I have the charger." You see, I think with that things should move on well.

Providing the Missing Piece(s): Situations where the entrepreneur envisioned a solution but lacked critical task-specific knowledge. In some cases, our informants relayed to us that they understood

what they needed to do, but lacked information that was critical to taking action. This includes situations such as understanding what products one needs, but not being able to get them at an appropriate price, or not being able to find them locally. The key differentiator from the previous mechanism was that the roadblock was not one of comprehension, but rather was one of more specific knowledge. One informant, Elen, a seamstress, conveyed such a situation. Here though, *she* is the one who is helping her friend; she is acting as the knowledge resource embedded in the social network:

Recently, a friend of mine came to me to discuss with me about a design. She is facing some difficulties on cutting the material to get that style. She came here and then asked me on how she can cut material and gets that style. Then I taught her how to cut the material, and how she can get this style done. She first tried to cut a material and see if she can come out with that new style. She found out later after cutting the material that according to how she cut the material, she cannot have that style. She is wondering how she can get those styles done. She thinks of coming to me, and seeks advice on how she can cut material and get that style...I told her where she cut it is not the right way to cut that material. She can't get it on how she cut the material. I taught her how she will fold the material and then cut it before she can get that style done. Because the [original] way the friend fold the material and cut it is not the right way to do that, I taught her with the right way to flow that material, how she will fold it and cut it and get the back side. I taught her how to cut it and then she later got to know how to do it, because we have 2 [sections of] materials at that time to produce that style. I cut one for her to watch, and after that I made her cut the 2nd one, and then she made it perfectly before I make her leave the shop...She called me later and told me yes, she is okay now, and she can even cut the material and she had cut one [dress] and come out with that style.

Originally Elen's friend knew the style she was trying to make, but lacked the specific technical knowhow required to make the necessary cuts. Through a brief interaction with Elen, she was able to learn the missing pieces she needed.

Endowing the business with additional vested learners

The final major category emerging from the data is the manner in which social networks endow businesses with additional vested learners. What comes out of the data is the notion that others notice aspects of a person's enterprise that they themselves do not; others pick up on missed signals, or interpret signals in novel ways. Because of this, members of one's social network are in an excellent position to offer advice and insights that may otherwise have been lost. As explained in a brief quote from Morro, the owner of a clothing boutique:

You see, on Sundays we go to beach, to the poolside, every Sunday. [Knowing this, my friend] tell me that, "Morro why not if you are going to pool, you take some of your clothes, maybe through that you get customers." And I say okay, and I think it is helpful.

Morro's friend understood his business, and understood his need to get additional customers. (A decreasing number of customers was a common challenge during the time all interviews were conducted, due to a declining economy.) He also understood Morro's patterns and the activities that he was likely to do. Having this as part of his conceptualization about the world, and apprehending Morro's need to gain additional customers, the suggestion was made.

Putting it Together

Figure 1: Inside the box (and environmental factors) is Kolb's experiential learning process applied to entrepreneurship. Outside the box are the social network mechanisms we induced

that contribute to the experiential learning process shows the integration of the above described patterns into an entrepreneur's experiential learning process. Our data shows social networks as supplementing the experiential learning process via two main mechanisms: providing additional inputs into the reflective process, and providing the missing pieces needed to overcome roadblocks where missing pieces of information prevent action. In the first mechanism, the social network serves as a source of knowledge inputs that serve a critical purpose in helping entrepreneurs to reflectively reconceptualise their understanding of key aspects of the enterprise. Without these additional inputs, entrepreneurs would be unable to move forward in a new way, since they are either unable to reconceptualise key relationships, or lack the impetus to do so. These inputs often serve as catalysts for taking new actions and for improving the business. As also demonstrated, the contribution of the social network can also be achieved through a vested learner seeing something that the entrepreneur does not, or the entrepreneur actively seeking guidance. In the second mechanism, the entrepreneur already possesses a conceptualization that is amenable with action, except for the fact that they lack key task-specific knowledge. Here, the participation of social networks is actively sought in order to obtain smaller pieces of information. The goal is not to achieve a total reconceptualization of key relationships, but is instead to obtain missing pieces of information that are critical to taking action. The ability to source knowledge in this way is a simpler task than the previous mechanism.

DISCUSSION AND IMPLICATIONS

Theoretically, we show how social networks play an integral role in complementing the experiential learning process that underpins entrepreneurs' ongoing learning requirements. This contributes a more nuanced view than previous literature that has employed an experiential learning lens simply to justify why past employment experience matters, or that has delineated how personal and situational factors may impact the experiential learning process (Corbett, 2007; Holcomb, Ireland, Holmes Jr., & Hitt, 2009) but that they also have the cognitive abilities that allow them to value and exploit that knowledge. This article builds upon and extends this line of inquiry by examining the relationship between opportunity identification and learning. Based upon an experimental task and other data collected from 380 technology professionals, the article defines a relationship between how individuals acquire and transform information and experience (i.e., learning). More than this, we show just how interwoven social networks are in the learning process, to the point that experiential learning cannot be considered as insulated from social networks. Though the socially embedded nature of learning is already recognized (Corbett, 2005; Kolb, 1984), our study points out just how significant this is. We also put forth distinct mechanisms by which social networks impact and complement the experiential learning process, which helps develop conceptual clarity regarding this relationship. Overall, the theory we put forward is integral for obtaining a finer-grained understanding of why social networks are so important to entrepreneurs (Stam, Arzlanian, & Elfring, 2014).

Practically, we provide insights that can improve entrepreneur training programs. Whereas most such programs take a classroom approach best categorized as behavioural learning – e.g. learning how to do specific tasks (Corbett, 2005) – we find that this is at odds with the dominant form of learning in these settings, an experientially based one that is inextricably intertwined with social networks. In our view, the efficacy of such programs could be improved by taking into account how entrepreneurs *currently* learn when designing programs to teach them. For instance, explicitly integrating the necessity of drawing on social networks as a way of meeting future challenges (created through dynamism or a lack of knowledge), may be appropriate. Furthermore, directly

integrating social networks into training programs is a way of ensuring that entrepreneurs are able to modify course content with locally appropriate knowledge, which is extremely important (Viswanathan & Rosa, 2007). Finally, such an approach provides continuity of learning after the training program ends, as it would integrate the two learning styles.

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¹This is the original title. However, our theoretical framing evolved as we saw and expanded on new insights from the data. This is entirely consistent with the nature of qualitative work. The title which more appropriately reflects the contents is: *“With a Little Help from my Friends”: The role of social networks in the experiential learning process of subsistence-level entrepreneur.*

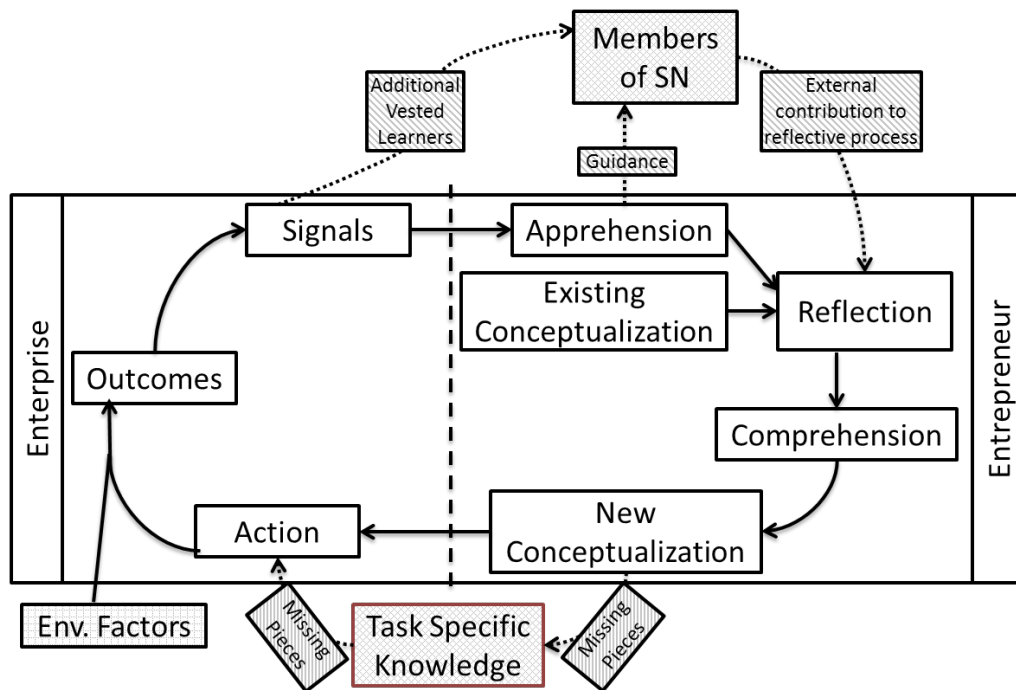


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