PERFORMANCE EFFECTS OF HUMAN CAPITAL: DISENTANGLING THE EFFECT OF EXPERIENCES AND COMPETENCIES AMONG NASCENT AND YOUNG ENTREPRENEURS (INTERACTIVE PAPER)

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PERFORMANCE EFFECTS OF HUMAN CAPITAL: DISENTANGLING THE EFFECT OF EXPERIENCES AND COMPETENCIES AMONG NASCENT AND YOUNG ENTREPRENEURS

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Principal Topic

What actually makes an entrepreneur? A great deal of research dealing with this question focuses on the entrepreneurs’ human capital as success factor. However, a recent studies report low correlations between traditional human capital variables and entrepreneurial success in general (Unger et al. 2011). One reason for this disappointing result might be that prior research has mainly focused on traditional human capital indicators such as education and management experience which are easy to measure but can arguably predict success in paid employment too. Another problem with these indicators is that they are distal to the entrepreneurial task of combining different resources such as physical and financial capital, people and ideas in order to successfully run a business. Building on this insight, Lazear (2005) proposed the importance of balanced set of experiences for the entrepreneur. As previous entrepreneurship research on the jack-of-all-trades view has primarily focused on the entry decision (e.g., Lazear 2005; Silva 2007), we don’t know much about its potential effect on performance once a venture has been started.

Method

The data for this analysis is provided by the Thuringian Founder Study. We analyze two datasets: First, we use data from a sample of 513 founders of innovative startups to predict business success across the first three business years. Second, we use data from a panel data set of 90 high-potential nascent projects. Participants were recruited from a multitude of sources such as elevator pitches and business plan competitions.

Results and Implications

In the young and nascent firms sample we find that a balanced work experience positively predict the two proximal human capital variables entrepreneurial competence and new resource skills. These in turn predicted entrepreneurial success as measured by credit rating, employment growth and profitability. In contrast, most of the traditional experience based variables were neither directly nor indirectly related to success. This supports the notion that a balanced skills rather than depth of any particular type of experience are important for the development of entrepreneurial skills.

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