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CHARACTERISTICS OF “NO + LOW” FINANCED BUSINESSES (SUMMARY)

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CHARACTERISTICS OF “NO + LOW” FINANCED BUSINESSES

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Principal Topic

We explore the 20% of all nascent entrepreneurs in the U.S. who attempted to start a business with financial capital of $500 or less. We label this group as “no + low” (N+L) financed businesses. We account for the variation in human and social capital of these nascent entrepreneurs and the types of N+L financed businesses started vis-à-vis “normal” or high financed businesses. Prior studies have found that an entrepreneur’s human and social capital can be a substitute for financial capital in existing firms. Our study addresses a developing social-capital-centered theory of entrepreneurship by exploring the impact of social capital on a nascent entrepreneur’s use of resources and success in starting a firm.

Method

The PSED II is a nationally representative sample of nascent entrepreneurs in the United States. Data was collected in six waves for 1,214 adults who, between 2005 and 2011, were actively involved in starting new ventures. We identify 25 nascent entrepreneurs who used less than $500 to successfully launch new ventures as the N+L group for comparison to other types of financed businesses. We use multinomial logistic regression to test the likelihood of a N+L: launching a new firm, disengaging from the startup process, or still trying at the end of data collection.

Results and Implications

While we do not find support for social capital as a substitute for financial capital, the amount of personal savings (as a proportion of net income) invested during the startup process has important implications for the motivations and characteristics of N+L nascent entrepreneurs. Successful N+L financers with more “skin in the game” are twice as likely to want to grow their businesses as large as possible and 9 times more likely to be well-educated compared to other successful nascent entrepreneurs who invested more money into their ventures. We also find that N+L nascent entrepreneurs have distinct characteristics that may allow them to substitute human capital for financial investment. N+L financers are typically 55-years-old or older and have considerable managerial experience. They are less likely to spend a lot of time in the gestation process.

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