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“Nascent Entrepreneurship and the Need for Social and
Human Capital”

or

“Why I hired my Brother”

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Abstract

The network approach to entrepreneurship is a widely used theoretical perspective within the literature on entrepreneurship. This literature supposes that network resources, network activities and network support are used to establish new ventures. Moreover, those entrepreneurs who can refer to a broad and diverse social network and who receive much support from their network are more successful. Based on this theoretical background, this paper tries to identify why a nascent entrepreneur would select someone out of his family instead of choosing someone who might have more know-how and experience available to form a nascent entrepreneurial team. The paper supports the opinion that during the conception stage of a firm it makes sense to choose a family member because of higher social capital which results in higher trust and finally in competitive advantages in comparison to non-family firms. Further, family firms decrease transaction costs. Search costs are decreased because the nascent entrepreneur does not have to search someone out of a bunch of applicants. Family members reduce controlling costs and the risk of opportunism due to high trust. Furthermore, the family can give important emotional support in moments of doubt.

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List of abbreviations

e.g. – for example

1. Introduction

Recently the field of entrepreneurship has increasingly been focused on nascent entrepreneurship as can be seen by the works of Davidsson and Honig (2003), Lechler (2001), Sonderegger (2009) and Wagner (2007). While they all raise valid points, one question that has so far been rarely dealt with is the effect of family ties on such nascent entrepreneurs. The recent global crisis has created a general lack of trust and responsibility. This lack of trust can lead some nascent entrepreneurs to try and start a venture with family members, who often have said positive characteristics (trust, greater loyalty towards the family business, fast decision making and communication is more efficient).

This paper will deal with the question of “Why would a nascent entrepreneur select a relative over other potential non-related candidates, who possess higher human capital?”

Family firms build an important segment of the Austrian economy. They help the Austrian economy to sustain its vitality, flexibility, and competitiveness. They are typically small and medium-sized enterprises (SME). Approximately 70 – 80 percent of all companies in Austria are run as family businesses (Feldbauer-Durstmüller, Wimmer, & Duller, 2007). The figures show, that family businesses are very successful.

Family members are therefore a helpful network tie if a nascent entrepreneur decides to start-up a new venture. The question, why the nascent entrepreneur should take someone from his family to form a nascent entrepreneurial team and consequently found a new family business is therefore not unimportant.

This paper tries to answer this question with the arguments from the “network approach on entrepreneurship” supposing that network resources, network activities and network support are used to establish successful new ventures. In addition, the concept of social and human capital is used to find the right conclusion. Studies on entrepreneurship and social networks show that strong social ties (family members) play a major role when a nascent entrepreneur starts to search partners for his new business. Thus, the key question in this thesis is “Why would a nascent entrepreneur select a relative over other potential non-related candidates, who possess higher human capital?” According to Sonderegger

(2009), the share of family members in a nascent entrepreneurial team negatively affects the homogeneity of the human capital levels. To explain this result we have to find out the benefits gained from choosing someone who is part of the nascent entrepreneur's kinship. But not only social and human capital bring important advantages to the nascent entrepreneur, also cost reduction is a major reason for choosing someone out of the own family network.

How does the new venture benefit from having family members as leaders? One can think that family members are prepared to work more than just eight hours a day to be successful at the end. The risk of opportunism should be decreased because normally the degree of trust is very high between family members. Sometimes the partners know each other already all of their lives. Search costs and controlling costs should decline as well. On the other side, there is the opportunity that the family member does not act the way like he or she should. It would not be the first time that a partner would think that he gets not enough money for his work and starts to take money out of the firm, without asking. Is it really right to completely trust the partner just because he or she is a family member?

The first part of this thesis is focused on the life cycle of entrepreneurship and the various types of nascent entrepreneurs, which are related to the stages of entrepreneurship. Section three will describe the concept of social and human capital. In section four there are hypotheses formulated which shall help to answer the key question of this thesis. Finally, this paper will present the conclusion of the findings.

2. The life cycle of entrepreneurship

The conception of a new business enterprise is a process (Wagner, 2007). According to Reynolds (1997) this process has four stages, which are equal to biological creation: Conception (the start of the new venture), gestation (growth of the start-up), infancy (early years of the firm) and adolescence (mature years of the company). The four stages have three transitions. The first crossover takes place when business partners begin to commit time and resources to create a new venture (Reynolds & White, 1997). If the business partners do so on their own, and if the new firm can be considered as an independent start-up, then they are called *nascent entrepreneurs* (Reynolds, Carter, Gartner, & Greene,

2004). According to Carter, Gartner and Reynolds (1996) “*Nascent entrepreneurs are individuals who were identified as taking steps to found a new business but who had not yet succeeded in making the transition to new business ownership*” (p. 151).

Carter et al. (1996) suggested in their findings that the sequence of activities, such as like searching for facilities and organizing a team has a significant impact on creating a successful new business.

Figure 1 shows figuratively the various types of nascent entrepreneurs.



Figure 1: Types of nascent entrepreneurs
Source: Own depiction

If there is more than one sole individual who decides to found a new venture they are called “Nascent entrepreneurial teams”. Watson, Ponthieu and Critelli (1995; 394) defined an entrepreneurial team as follows: “*A venture team is two or more individuals who jointly establish and actively participate in a business in which they have an equity (financial) interest.*” It is important to understand the term “entrepreneurial team” and therefore it is helpful to also understand the nature of team creation. The framework of Kamm and Nurick (1993), deals specifically with venture formation of teams. The model states that the process of firm creation takes place in stages with the idea coming first followed by the implementation. According to Reynolds (1997), this would be in the conception stage. During the conception stage, an individual or a group recognize an opportunity within their social network and decide whether the concept should be further developed or not. The gestation stage needs decisions regarding the supply of resources,

the incentives used to attract potential partners, and team maintenance. This framework offers insights about the conception, gestation, and birth of firms established by entrepreneurial teams (Kamm & Nurick, 1993). The second transition arises when the gestation process is finished and the new firm either begins as an operating business, or when the nascent entrepreneurs stop their effort. The latter is called a “stillborn”. The path from infancy to adolescence is the third transition. It’s the successful shift from a fragile venture start-up to an established new company (Wagner, 2007). An illustration of the four business stages is shown in figure 2. Churchill and Lewis (1983) criticized in their paper that many scholars, who tried to build up a framework to describe the life cycles of an organization, failed to capture the crucial early stages of a firm. The organizational life cycles are primarily used to propose that companies grow through progressive stages, which are: emergence, early growth, later growth, maturity and sometimes death (Hite & Hesterly, 2001) (). The main focus in this paper lies on the conception stage following Reynolds (1997) or emergence stage following Hite and Hesterly (2001).

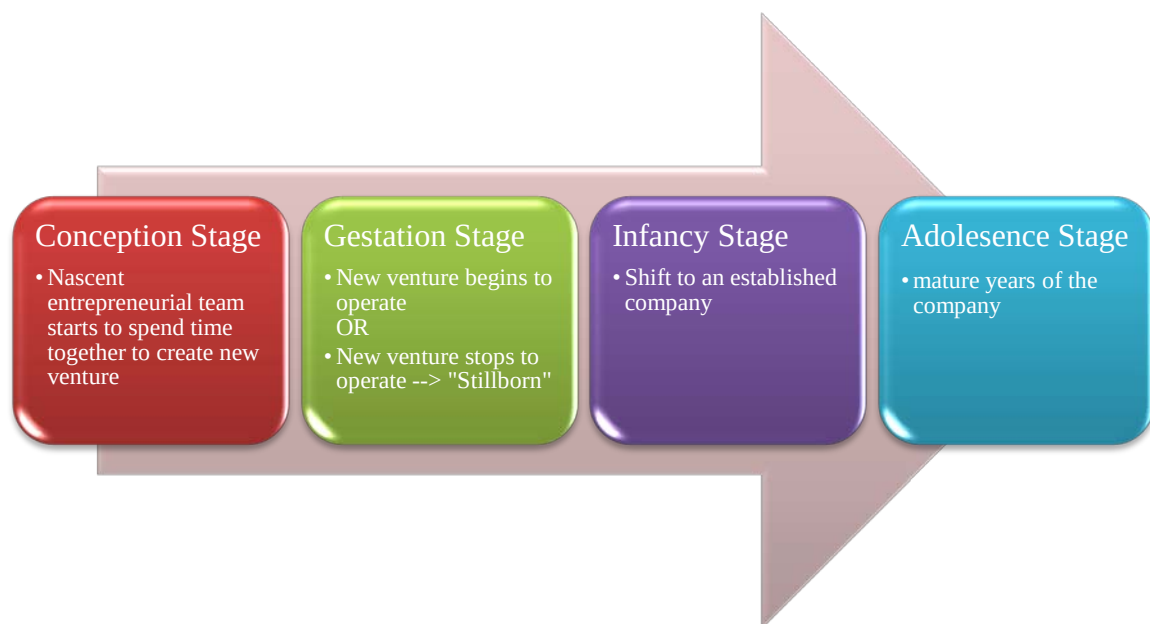


Figure 2: The business stages
Source: Own depiction

Nascent entrepreneurs have diverse profiles. There are various types of nascent entrepreneurs, some of which are successful and some are less successful. Carter, Gartner and Reynolds (1996) found three different types of nascent entrepreneurs:

(1) Started a Business

There are some nascent entrepreneurs who put more effort into their businesses, and these were willing to work more than eight hours a day. They set activities that made their business visible to others. These activities were, for example: searching for facilities and equipment, forming a legal entity, organizing a team, buying facilities and equipment, and devoted themselves full time to their business. Individuals who started a new venture seemed to act with a greater level of intensity. They worked each day with the aim of forming an ongoing business as quickly as they could. At the end, these activities resulted in starting firms which generated sales and a positive cash flow. These nascent entrepreneurs ran through the entire life cycle successfully.

(2) Gave up

The nascent entrepreneurs who gave up seem to discover that their initial idea would not lead to success. Compared to the entrepreneurs who started a business, the group of individuals who gave up was as aggressive as the ones who started a business, but at the end they gave up when the firm was not successful over time. This group of entrepreneurs is seen as being too timid to jump into something that might end in failure. In addition they are lacking the flexibility to find solutions for the problems they are confronted with. The unsuccessful nascent entrepreneurs who gave up are those who were stuck in the gestation stage and at the end their business failed.

(3) Still trying

The group of still trying entrepreneurs did not put enough effort into the start-up process. They undertook fewer activities than individuals in the other two groups. These entrepreneurs perhaps all just have theoretical ideas, but in the end take little action. The nascent entrepreneurs who are still trying were either stuck in the conception stage or in the gestation stage. They want to see their business succeed, while at the same time not giving up, but not putting enough effort in yet.

3. Definition of social and human capital

The following section will cover the definitions of social and human capital. Social capital was first examined by Bordieu and Coleman. The most important definition of human capital was derived from Becker.

3.1. Social capital

The first definition of social capital was derived by Pierre Bordieu. He presents three different forms of capital: economic capital, cultural capital and social capital. Economic capital is immediately and directly convertible into money. Cultural capital is sometimes convertible into economic capital and can be seen as educational qualifications. Social capital is social obligations (connections), which can be turned into economic capital under certain conditions, and can be named as title of nobility (Bourdieu, 1986). He focuses on the benefits, which are arising to individuals by virtue due to participation in groups. Sometimes individuals even plan to participate in groups for the only purpose to create social capital (Portes, 1998).

“Social capital is the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition.” (Bourdieu, 1986, p. 248)

To possess social capital, a person needs to be related to other people. Those others are the source of his or her advantage. The motivations of other people to make these resources available are not equal. There are people, who pay their debts in time or give alms to charity because they feel an obligation to behave like this. The internalized norms, which make such behavior possible, are then applicable by others as a resource (Portes, 1998).

Social capital is not completely replaceable, but perhaps specific to certain actions. Social capital inheres in the formation of relations between actors and among actors. It is not clamped in the actors themselves or in physical equipment of production. For the reason that organizations can be actors (“corporate actors”) just as people can, relations among corporate actors can constitute social capital for them as well. An

example is the sharing of information that enables price-fixing within an industry. To illustrate how important social capital is within the economic and non-economic world, two examples are listed below.

The wholesale diamond market. This market shows a property, which is extraordinary to an outsider. Before a business deal takes place, the seller will hand over his stones to the purchaser so that he can inspect the quality of the diamonds. The purchaser examines the stones in private at his leisure. There is no formal insurance necessary because the seller trusts the purchaser that he will not substitute one or more inferior stones. Although the merchandise may be worth thousands of dollars, such free exchange of diamonds for expectation is important to ensure the functionality of this market. If such trustworthiness would be missing, the diamond market would operate in a much more complicated and much less efficient fashion. The inspection of the stones shows certain characteristics of the social structure. The given business community is very close in their frequency of interaction and in their family ties. The wholesale market of diamonds in New York City is Jewish with a high level of intermarriage. They are all living in the same area of Brooklyn and they are all visiting the same synagogues. Basically it is a closed community. These close ties through family, community and religious membership provide the insurance needed to ease the transactions in the market. If any member of the community would substitute a stone or steal a stone while observing them, he would immediately lose family, religious, and community ties. The strength of these ties makes these transactions possible, in which honesty is taken for granted. If these ties would not exist, complex and expensive bonding, as well as an insurance policy would be necessary, or otherwise the transactions could not take place (Coleman J. C., 1988).

A family moving from Vienna to the countryside. A family moves with their two children from Vienna to a small village in Lower Austria. The reason for doing so is their greater freedom of young children in the village. The parents feel safe in letting their seven year old child go to the local bus station alone, driving to school in the next village. Moreover, the parents feel their child to be secure in playing with other kids of the town without supervision at the local playground. Neither of the two reasons listed above did they feel able to do where they lived before.

The reason for this difference can be described as a difference in social capital available in a small village in Lower Austria and Vienna. In the village, the normative structure makes sure that unattended children will be “looked after” by adults in the neighborhood. In comparison, such normative structures do not exist in most metropolitan areas such as Vienna. One can say that families have access to social capital in a small village in Lower Austria, which they do not have in Vienna.

Using an organizational viewpoint Leana and van Buren (1999), p. 540) stated that social capital reflects “*the character of social relationships within the organization, realized through members’ levels of collective goal orientation and shared trust.*”

Coming from the theory’s collective and shared nature, social capital likely has a powerful influence on the flow of information and collective action of groups. The social capital theory is by its definition socially complex, related to norms, values, cooperation, vision, purpose, and trust that exist in a nascent family firm (Pearson, Carr, & Shaw, 2008). Considering social capital as a deeply embedded resource in the family firm then social capital is tacit in nature and extremely difficult for competitors to copy (Dess & Shaw, 2001).

A start-up venture needs resources to successfully found a new business. So one needs to ask which resources are necessary that the nascent firm will be successful at the end. According to Barney (1991), a firm needs resources to gain competitive advantages and to stay successful over time. This concept is called the **resource based view**. These resources are physical capital, human capital, financial capital and organizational capital. Physical capital includes the technology used in a company, the plant and equipment of the firm, its geographic location, and its access to raw materials. Human capital resources are for example training, experience, know-how and relationships. Financial capital resources are all different money resources that start-ups can use to make their business work (e.g. bank loan, venture capitalists, business angles). Organizational capital resources include the whole network of people within a company and between a company and those in its environment. Thus, Barney (1991) and Leana and van Buren (1999) used the term organizational capital equally for the term social capital.

But how must the team processes look like that the new venture is going to survive the founding process? The **sociological view** argues that entrepreneurial efforts and economic activities are more successful when embedded in a connected network of social actors.

For family businesses not only human capital, which is a part of the resource based view, also social capital, which is a part of the resource based view, is important. One can argue that human capital is only important to the nascent entrepreneur's decision if the family member has higher or equal human capital available. Whereas, social capital always has a greater level within family businesses than in non-family businesses.

There are various sources of social capital which will be discussed below. The main purpose is to find out the social relations that can create useful capital resources for individuals.

Forms of social capital

At least social capital became defined as a source of social control, a source of family-mediated benefits and source of resources mediated by non-family networks (Portes, 2000).

As a set of relationships, social capital has many different characteristics which are, according to Nahapiet and Ghoshal (1998) categorized into three groups:

- (1) The structural capital - social interaction and network ties
- (2) The relational capital - trust and trustfulness
- (3) The cognitive capital - shared norms.

In context of the exploration of venture creation scholars used the categorization of Nahapiet and Ghoshal (1998) therefore it is described in detail below.

The structural capital: social interaction and network ties

The basic proposition of social capital theory is that network ties provide access to resources and information (Liao & Welsch, 2005). The main topic in the literature is that social capital represents a valuable source of information benefits. As Aldrich and Zimmer (1986) stated in their paper about Entrepreneurship: “*It is not just What You Know but Who You Know*” (p. 20). The most important proposition of social capital theory is that network ties enable access to resources (Nahapiet & Ghoshal, 1998). Coleman (1988) suggested that information provides the basis for action but it is costly to gather. According to Burt (1997) and Nahapiet and Ghoshal (1998), there are three forms of information benefits: (1) Access: Actors receive valuable information for their own use. Moreover, networks have the task to provide the members of the network with efficient information screening and information distribution. (2) Timing: Personal contacts provide information faster than it becomes available to people without such contacts. (3) Referrals: Processes which provide information on possible opportunities for members within the network. The most important feature of this dimension is the absence of network ties between actors. Structural capital basically enables the nascent entrepreneur to get access to information, resources and support, which is important for venture creation. This type of social capital facilitates the development of new forms of association and innovativeness. Moreover, a social network increases the entrepreneurs’ accessibility to productive elements and reduces cost. (E.g. lower interest rates for loans among others) (Liao & Welsch, 2003).

The relational capital: trust and trustfulness

The relational dimension of social capital concerns the kinds of personal relationships which people have developed throughout a period of time of interaction (Liao & Welsch, 2003). There have been various interpretations for this term such as relational content (Burt, 1997) and relational trust (Tsai & Ghoshal, 1998). Trust can act as an authority mechanism for embedded relationships. It is an attribute of a relationship; on the contrary, trustworthiness is an attribute of an individual actor involved in the connection. Trust can also cause joint efforts therefore; a trustworthy actor is more likely to get other actors’ support than those who cannot be trusted by other actors. In addition, the trustworthy actor will achieve goals to an extent that would not be

possible in a situation without trust (Tsai & Ghoshal, 1998). Nahapiet and Ghoshal (1998) highlighted the importance of interpersonal trust for knowledge creation in an environment of high ambiguity and uncertainty. The structural capital of an entrepreneur's network is useful, but it does not seem as if it has a sufficient impact on the venture creation process. Through relational capital the entrepreneur gets accessibility to informational, physical, and emotional support in the venture creation process. The more information channels are available to the nascent entrepreneur, the easier it is to develop trust and trustfulness. In addition information, resources and other forms of transactions can take place. Therefore, trust is the forerunner of resource acquisition, knowledge combination, and exchange (Liao & Welsch, 2005).

The cognitive capital: shared norms

The third dimension of social capital is called "cognitive capital." This dimension has not been discussed in the mainstream literature of social capital (Liao & Welsch, 2005).

Nahapiet and Ghosal (1998) defined cognitive capital as follows:

"Cognitive dimension refers to those resources providing shared representations, interpretation and systems of meaning among parties." (p. 244)

Coleman (1990) argued that *"a norm concerning a specific action exists when the socially defined right to control the action is held not by the actor but by the others"* (p. 243).

This represents a powerful form of social capital. The behaviors of nascent entrepreneurs are formed by the normative and imitate forces that exist in their network. The set-up of a new venture is therefore also a process, where the nascent entrepreneur gets access to scarce resources to be able to reach economic goals. This access is often reached through the entrepreneurs' personal ties and social interactions. Cognitive capital also provides the entrepreneur with social support. This safety net allows the entrepreneur to break social norms in case he/she needs to take risk. Social capital increases with its use. A high intensity of mutual expectations and shared trust decreases the need for official monitoring and bargaining over agreement (Liao & Welsch, 2003).

Social capital is important when answering the question, “Why I hired my brother?” Between family members, the value of social capital is always higher than between non-relatives. All three forms of social capital which are named above are equally given within a family business. Social capital provides access to information, which is expensive to gather. Through family members it is easier and cheaper to gain important information. Trust between family members is always very high, because “blood is thicker than water”. Shared norms are available because normally relatives already know each other for their entire lives and know each other’s viewpoints and visions. Therefore, the high concentration of mutual expectations and shared trust decreases the need for control mechanisms.

3.2. Human capital

Human capital and its importance have become more and more acknowledged by economists. The first economist, who included human capital in his definition of capital, was Adam Smith (1776). Human capital was long forgotten until its re-birth in the early 1960’s with the papers of Becker (1962, 1964); Schultz (1961, 1962); and Mincer (1958, 1962, 1974) (Laroche, Merette, & Ruggeri, 1999).

Becker (1964) defined investments in expenditures on education, training or medical care as human capital. According to Schultz (1961), the investments named above not only create human capital, but also bring better job opportunities. Becker (1964) proposed that human capital is not only the result of formal education, but includes experience and practical learning that takes place on the job, as well as non-formal education (e.g. specific training courses that are not part of traditional formal educational structures). Therefore, labor market experience and specific vocationally oriented experience should increase human capital.

Figure 3 shows of which components human capital consists of.



Figure 3: Components of human capital
Source: Own depiction

Laroche, Merette, and Ruggeri (1999) identified five major characteristics of human capital:

- (1) Human capital is a **non-tradable good**. Skills and knowledge are represented in human beings. As long as human beings are non-tradable goods (this means no slavery exists) there is no market which would allow the exchange of human capital assets.
- (2) Human beings **cannot always control the channel and rapidity** by which they obtain human capital. As child individuals are not able to make rational decisions about their needs for human capital, nor do they know about their potential abilities. Therefore, human capital decisions are not made by its owners, but by their parents, teachers, and governments and by the society through its educational and social institutions (e.g. school, university). Once individuals become older they make their own decisions and so they are responsible for their further human capital investments. These further investments depend on past investments and on the social environment, the influence of their relationships and the institutional context in which they live shape their acquisition of human capital in two ways: type and amount.

- (3) Human capital has **qualitative and quantitative attributes**. It is easy to quantify an individual's total years of schooling, but it is unsaid that human capital investments are qualitatively the same. For example, students who obtained their degree at Harvard University may have obtained a better formation than those who graduated from less famous universities.
- (4) Human capital can be **general or specific**. Knowledge and abilities are general if it is possible to use them in a variety of activities and if they are transferable from one employer to another. In contrast, human capital is specific if it is only possible to use it for a limited number of activities and if the disbanding of employment relationships between workers and companies shows considerable loss of value which can only be re-obtained through costly investments.
- (5) Human capital obtains in its definition the conception of **external effects**. These spillovers take into consideration the influence that human beings have on the productivity of others and of physical capital. It is said, that individuals will be more productive, at any given level of skills, in an environment having a high level of human capital. As said above, human capital also generates social externalities. These externalities are: increased utility from living in a society with democratic institutions, freedom of thought and speech and a variety of literary expressions and means of communications. The latter enables individuals to live effectively in a society whose members share common goals. These common objectives enhance mutual trust among individuals and strengthen social institutions.

The above named attributes of human capital are not all equally relevant for answering the question of this thesis. In this context human capital must be specific knowledge, as the family member needs to be able to work and solve problems related to his/her work within the new family business. The social external effects are for sure higher than in non-family businesses. Family members have a higher value of trust available and normally follow a common mission.

For answering the question “Why I hired my Brother?” one has to define two separate cases. In the first case there are two non-relatives who want to be a part of the nascent entrepreneurial team. In this case human capital will be more important than social capital for making the decision for either one of the two. In the second case there is one alternative, namely the relative, who also wants to be in the nascent entrepreneurial team. In this case, human capital only gets important if the family member has a lower level of human capital available. As long as the relative has the same or a higher level of human capital available in comparison to the non-relative applicant, the nascent entrepreneur will take his/her relative.

4. Setting up hypotheses

In this section there are various questions which need to be answered related to the reasons why a nascent entrepreneur should choose a relative member instead of someone else. The hypotheses are derived out of these questions.

4.1. Social capital in the creation of human capital

Hypothesis 1: *The nascent entrepreneur would select a person with high social capital over a candidate with high human capital.*

There are many companies which were founded by nascent entrepreneurial teams. These teams often consist of family members. One example for such a company is “The Walt Disney Company.” The company which was originally known as the “Disney Brothers Cartoon Studio,” was founded 1923 by the two brothers Walt and Roy. The brothers were equal partners and the company changed its name to the Walt Disney Studio at Roy’s suggestion. Today the company is called “The Walt Disney Company,” which has grown into an international corporation (The Walt Disney Company and Affiliated Companies, n.d.). This is just one example of a successful venture that was founded by brothers. There are many others like it, for example, “The Warner Bros. Entertainment Inc,” and “Johnson & Johnson,” just to name a few. These successfully founded companies by brothers are raising the question, why

they chose their family members as being a business partner instead of searching someone outside the family environment? The so called “strong ties” (family members and close friends) are often a source of assistance in uncertain circumstances. They are also able to influence the nascent entrepreneur in a certain way and they are relied upon when deciding crucial changes such as planning a start-up. Moreover, strong ties play a major role in socialization toward entrepreneurship. People get their values, attitudes, information and skills in their childhood from their strong ties. Thus, perhaps form a tendency toward entrepreneurship. Strong ties with valuable business-related knowledge, skills and experience provide access to specific information and resources which are necessary to successfully create a business start-up. Close family members and friends are connected to emotional support when making important decisions. Not only is emotional support important to the nascent entrepreneur, but strong ties can also influence the decision to even engage in entrepreneurial activity in a practical sense. Some strong ties (e.g., father, mother, spouse and close friends) are in the position to provide practical assistance to the nascent entrepreneur with business advice, business knowledge and experience, assistance with start-up activities or monitoring (Sequeira, Mueller, and McGee, 2007). A lot of researchers note that entrepreneurs benefit from having assistance either in their family, workplace or in a social or business setting (Aldrich and Zimmer, 1986). Nevertheless, Sequeira et al. (2007) remark as well that the influence of entrepreneurial strong ties can also be negative. In the sense that entrepreneurial strong ties often provide a completely realistic picture of the difficulties involved in starting up a new business. Consequently, this image of the “dark side” of entrepreneurship might outweigh the positive side. At the end the intention to startup a new business is less likely because opportunity costs are high (Sequeira et al., 2007). In summary, Sequeira et al. (2007) argued that at first intentions are formed with the moral support (social capital) of strong ties and at the same moment strong ties who are helpful for the business work suppress these intentions. Second, the nascent behavior begins. Third, a network of helpful “weak ties” (friends, strangers) is formed. Dubini and Aldrich (1991) defined weak ties as *“superficial or casual, and people typically have little emotional investment in them”* (p. 307). Finally the new venture is launched. Ensley and Pearson (2005) explained in their study that entrepreneurial teams consisting of family members were more successful in managing their idea conflict. Davis and Harveston (2001) argued that family teams

would have less conflict because they are having a single vision of their company. Furthermore, the close knit among family member's results in shared learning, understanding and consensus. They proposed that shared interaction and consensus will lead to reduced conflict and therefore result in trust. As written in the beginning of this thesis, one form of social capital, namely **relational capital**, is trust. Nelson (1989) stated also in his study that strong ties reduce and hinder conflict in organizations which in turn would lead to a disjunction of the company.

Coleman (1988) showed in his concept of social capital the familiarity with Becker's (1964) concept of human capital. Coleman (1988) explained that human capital formation is not independent upon prior social capital. In that sense, social capital first becomes human capital, and human capital later becomes financial capital. The findings of Coleman (1988) and Becker (1964) go along with the reasons named by the Disney Corporation when asking why Walt Disney chose his brother Roy as his business partner instead of any other person. The answer was:

"..., it was natural for Walt Disney to turn to his brother when starting his company in 1923. He knew hardly anyone else in Hollywood, and he was confident that his brother could help him establish his cartoon studio because he was a good businessman. Roy had worked in a bank and knew more about the business side of the partnership than Walt did. Walt was more into the creative side. But both were geniuses in their own fields - business and creativity respectively." (Smith, 2010)

What is more important in the first place, when Walt Disney decided to found a new venture? Human capital or social capital? Roy Disney was good at working with figures and therefore he gave his brother access to valuable **specific knowledge** about the business that he did not have. The brothers had complementary knowledge available that added perfectly. Consequently, Roy was an important **network tie** that enabled Walt Disney to gather information which he did not have.

This answer also assumes that Walt Disney was lucky that his brother Roy had the missing knowledge of financial business skills and experience (human capital). Walt had the choice to take another non-relative as partner, which had more experience and know-how available, than his brother Roy. Still, he decided to take his brother, due to

his increased social capital available (e.g. mutual understanding, high value of trust) compared to the non-relative applicant.

Therefore, one can conclude that Walt took his brother because both had sufficient knowledge which was important to start up the new firm, although he had another applicant available who had more knowledge and experience available. Thus, social capital is more important than human capital.

4.2. Transference of human capital

Hypothesis 2: *Human capital must be available and can be transferred to relatives/team members.*

To ascertain the validity of Hypothesis 2, I will examine the example of the Timken Company.

It is beyond dispute that human capital plays an important role when founding a new venture and a nascent entrepreneurial team (Anderson and Miller, 2003; Davidsson and Honig, 2003). What is more important in the case of family businesses when deciding which partner to take? Human or social capital? Is it important that human capital is transferred to the family member? In the case of family business human capital is a decision variable, as long as the other applicant, namely the non-relative, does not have a higher level of human capital than the family member. The nascent entrepreneur will always choose his/her family member if the human capital level is equal or higher in comparison to the non-relative. Therefore, human capital is not the only key to successfully founding a new firm. For family firms, social capital is more important than human capital, if the human capital level is equal or higher.

Everyone went to school to gain knowledge. Some people had the possibility to acquire more knowledge than others because of their financial background. Later on individuals obtain further knowledge, experience and skills through their work – the so called “learning by doing.” Very often the spillover of knowledge takes place at the workplace because colleagues are asked to train and introduce the new employee into the new work field. This assumes automatically that the colleague wants to teach

his new workmate and likes to pass on his knowledge to someone else. Very often this is not the case, because people are afraid to lose their job, because maybe the new colleague in the end will do better than he does. If that is the case, knowledge is not going to be transferred.

In case of new venture creation and the formation of a nascent entrepreneurial team it would be a hindrance if the nascent entrepreneurial partners try to hide their knowledge, skills and experiences from each other, because it would prevent the new venture from being successful. The nascent entrepreneurs are both sitting in the same boat, no matter if they are relatives (strong ties) or friends (weak ties), they both will work together to have a successful venture at the end.

The business philosophies of family firms like The Timken Company or Michelin are great examples to show how they became great over decades (Miller & Le Breton-Miller, 2005). The Timken Company was founded in 1899 by Henry Timken. He manufactured the first tapered roller bearings in the world (The Timken Company, 2010). The mission of the company to this day is:” *If you have an idea which you think is right, push it to a finish. But above all, don’t set your name to anything you will ever have cause to be ashamed of*” (The Timken Company, 2010).

So, to this day the company follows a very strong mission and also norm which was already set a decade ago by Henry Timken. This mission, be it technological development, quality or service, is the soul of the family firm. It is something the firm stands for and the moral fiber of the company strategy and competitive advantage (Miller & Le Breton-Miller, 2005). This is the so called **cognitive capital**, which was mentioned above, that is available in family firms like The Timken Company. Miller and Le Breton-Miller (2005) mentioned that leaders, like Henry Timken, are not afraid to invest deeply for the long run, sacrificing and focusing to build potentials, and doing whatever it takes to see their company succeed. It is a fact, that family businesses invest on average more than non-family businesses to improve their plant, equipment, employees and research and development. Family firms do this with 60 percent less debt and 20 percent more liquidity. For The Timken’s Company profits are part of their mission, norms and values. The Timken’s Company sense of identity centers on its social principle, the technological legacy of its pioneers, and the stability of Timken family leadership.

As noted earlier, human capital is not tradable on the market like physical capital. Laroche et al, (1999) argue that the stock of human capital is not marketable but the services which emanate from this stock. This means that human capital cannot be sold on the market, but knowledge spills over through accumulated experiences. Furthermore, human capital is shaped by the interactions of human beings and it is a subject to spillovers and social externalities (e.g. mutual trust, mutual understanding), which in turn have the potential to change the learning and accumulation processes. All these externalities are called social capital. It is empirically shown that societies with high levels of social capital can operate economic (e.g. companies) and social (e.g. university) institutes at lower transaction costs than those with lower levels of social capital.

In contrast, social capital is very difficult to transfer. As with other kinds of capital, like physical or human capital, more is generally seen as better. Social capital appears as relationships and rewards over time and disappears when the relations stop to exist. It is generally seen as a moral resource. With the usage of social capital, it rather decreases than increases (Leana & van Buren, 1999). Thus, it is obvious that human capital is easier to transfer than social capital.

Consequently, human capital can be transferred to members of the nascent entrepreneurial team. Therefore, one can imagine that the transference of human capital between the family members is important to gain further knowledge and to acquire further social externalities.

4.3. Importance of strong ties

To answer the question why a nascent entrepreneur should select a relative over a non-relative applicant for being his/her partner within the nascent entrepreneurial team, one needs to raise the question how important social capital is for the nascent entrepreneur? Do relatives have a higher social capital than non-relatives? Out of these questions I derived the following hypothesis, which should help to answer these questions.

Hypothesis 3: Relatives and acquaintances tend to have higher social capital than strangers.

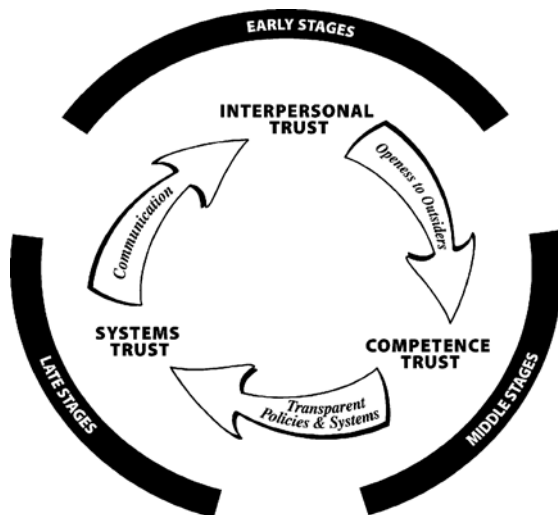


Figure 4: Sustaining Cycle of Trust
Source: Sundaramurthy (2008)

As presented in section three, one dimension of social capital is the relational social capital, which is trust and trustfulness. Trust is important for every company no matter if it is founded by a single entrepreneur or by an entrepreneurial team that consists of family members.

Trust is seen as fundamental for the competitiveness of organizations which have increased levels of complexity and uncertainty. It is the basis for a successful cooperation and it is also a source of

competitive advantage. It is assumable that companies suffered from a lack of trust within their enterprise. Thus, it is obvious those organizations are healthier and more successful in the long run, if they are able to build ongoing trust within the enterprise (Sundaramurthy, 2008). Therefore, Sundaramurthy (2008) presented in his paper the “Sustaining Cycle of Trust” (Figure 4). The basic preconditions of this model are; (1) trust is a multidimensional incident with cognitive and affective features; (2) trust is dynamic; (3) the trust cycle is renewable. This means that the nascent firm will revisit each of the three features of trust; (4) sustaining trust is directly linked to the firm level; and (5) trust cannot increase without distrust; thus, the coexistence of trust and distrust within a nascent entrepreneurial team can help to sustain trust within the

nascent firm. As this thesis is only dealing with the early stage of the enterprise, it will only be explained this section of the cycle. During the early stages like the conception stage according to Reynolds (1997), the enterprise is a so called “high trust” organization where trust is relational and interpersonal. Interpersonal trust is based on kinship, familiarity, mutuality of personal characteristics, history and extended period of experience. The bases for interpersonal trust are knowledge- and identification-based trust. The previous is based in the predictability of the other’s actions. Through the history of interaction among individuals it is possible to know what to expect from the other. This supplies trust even if the other is predictably untrustworthy because one can foresee how the other will abuse the trust. Shared experiences and understandings also build an “emotional bond,” which helps to identify common goals and norms. To build up interpersonal trust between strangers, a big amount of time is necessary and is normally built over periods of repeated interaction. In fact, very few business relationships reach this level of trust. Thus, interpersonal trust is scarce and, hence, a source of comparative advantage.

It is unfortunate, but fraud occurs also in family businesses although trust is very high between family members. Blood is may be thicker than water, but that does not protect a family enterprise from theft by family members. Whether children work in the family business or immediately placed in a key position in the company, the risk exists that they will abuse their position. One negative example, where trust was abused, is Zzzz Best, a carpet cleaning company. The company was founded by a 15 year old teenager called Barry Minkow in the 1980s. Berry Minkow learned his business know-how from his mother, who worked as a telemarketer with a carpet cleaning company. He always had his family involved and duped all of them. He started the business in the garage of his parents. Within four years the company grew and had 1,400 employees. At this time, the company started to specialize in insurance restoration business. Berry Minkow formed dozens of business contracts. Nevertheless, behind the scenes his company was only a front to attract investment for a Ponzi scheme. Zzzz Best did not clean as many carpets as they claimed but delivered a plausible paper trail to fool potential investors. To make this fraud authentic, interstate Appraisal Services were formed in a separate company (Spiritus-temporis.com, 2005).

This is just one example, where **relational capital** (trust and trustfulness), was abused by a family member. Nevertheless, this paper supports the opinion, that the high degree of trust within family firms result normally in competitive advantages.

According to Corbetta and Salvato (2004) family members already have access to resources like social capital. This comes from common heritage and shared family identity (cognitive capital). To gain these resources, which are given to family members for granted, large organizations have to invest money to create such social capital like in businesses founded by family members (Sundaramurthy, 2008). Carney (2005) noted that “*social capital appears to be a driver of competitive advantage in family firms*” (p. 261).

Tagiuri and Davis (1996) presented bivalent attributes of the family firm, which are summarized in table 1. Bivalent attributes are advantages, disadvantages and a source of social capital at the same time for the family firm. They identified seven attributes, which are:

(1) Simultaneous roles:

Family members can have several roles within the firm, namely: relatives, owners and managers. As family members they are concerned about the welfare of the family, as owners they are interested in getting profits and as managers they want to increase the firm's operations effectiveness. The relatives' obligations to the family and company can provide loyalty towards each other and to the business. This loyalty can involve standing behind one another's decisions, making personal contributions for each other, the family, and the firm. The struggling for power is reduced and gives rise to cooperation and trust. It creates a sympathetic understanding of one another's shortcomings, along with one another's strengths. When relatives have simultaneous roles (nascent entrepreneurs as equal partners e. g. founder – brother – president) the decision-making process can be centralized. Hence, the efficiency, effectiveness and privacy of the decision making process are increased. Due to the immediate availability of ownership, business and family information, decisions can be taken quickly and discretely in the best interest of the business and the family. But there are also negative outcomes from simultaneous roles such as “norm confusion.” Basically, families tend to have their own norms. Families often seek for internal unity and try to

hold back rivalry among members. Other businesses often aim for a healthy level of internal competition. The competitiveness within the firm or family unity will be sacrificed to protect the enterprise or the family. Furthermore, family businesses can suffer from a lack of marketplace objectivity and poor profit discipline because family, ownership and business issues can get mixed up. Family members can slip into any role that will give them greatest power in situations of conflict. For example the older brother can treat his younger brother like a child, not like an equal business partner, to maintain his position or power. This is not the case if nonrelatives are working together because they are more likely to handle business decisions objectively. Another problem that family businesses face is that each family member may consider themselves as a spokesperson of the company. This can result that family members are trying to undermine each other's authority within the company and a general lack of clarity about responsibilities.

(2) Shared identity:

Relatives always share a sense of identity. This attribute has a meaningful and crucial influence on relatives' behavior. Because work and family issues are interlinked in family firms, each action of every family-employee has a business and family meaning. The family name is an identity for all family members and has a certain meaning to individuals inside and outside the company. Thus, the family name defines certain rules of behavior for relatives. This behavior is going to be anticipated by outsiders. If even one member of the family does not behave according to the behavior rules (e. g. being loud or bossy) outsiders may sum-up that the rest of the family behaves in the same way. This is also true for good, constructive behavior. Consequently, a relative's behavior can influence the reputation of others in the family and the reputation of the nascent family firm as well. This image concern and the consequent policing may help to increase the awareness of family standards and find a mission they can all follow and therefore find a reason for mutual loyalty. The negative side of the image pressure is that some family members may feel like they lack their freedom. Some family members may feel like they are watched in and out of the company and therefore lack the sense of freedom. The pressure to act in ways that increase the reputation

of the firm can counteract the influence of the family in the management of the company and therefore rebuild some objectivity for the decision-making process.

(3) Lifelong common history:

The behavior of relatives who lived together with one another all of their life, is influenced when they are working together. Each family member has therefore its own collection or shared experience. Since they spent a lot of time together, they learned their strengths and weaknesses from each other. This knowledge can be used in two ways: for constructive or destructive purposes. They can complement each other's weaknesses or they can show out their relative's weaknesses and thus, undermine the standing of the other family member. The history of the relationship contains happy and disappointing experiences. These experiences shape their expectations concerning their working partnership. In contrast, early disappointments can decrease trust between the relatives and therefore complicate work interactions. If the lifelong history has been positive and constructive, the mutual patterns come into operation with ease and speed which is obvious an advantage. But if the relationship between the two family members has been difficult then the fast locking is a disadvantage out of which it is difficult to run away.

(4) Emotional involvement and ambivalence:

Since relatives have a collection of positive and negative situations with one another throughout their relationship history, family members hold simultaneous and powerful feelings (positive or negative) towards each other. Consequently, it is obvious that the emotions between relatives surface more easily than between nonrelated individuals. Thus, it is may be difficult to interpret one another's actions and words objectively. Therefore, communications are often interpreted in terms of their meaning as family member instead of a business context. Positive to name is that the expression of love can generate unusual motivation, cement loyalties and increase trust among family members. It is forbidden to publicly display family problems. This can avoid embarrassing conflict situations. On the other side, the denial of negative feelings can cause suppression of discussions. This in turn can lead to covert expressions of hostility such as demoralizing each other's confidence, withholding emotional support or avoiding one another. The

expression of a relative's negative feelings toward a family member can break the business and family relationship and greatly disrupt the firm.

(5) Private language of relatives:

Family members create their own private language throughout the years they spent together of shared experiences. They have their own special words, phrases, expressions and body movements which have a certain meaning. This so called "family languages," allow family members to communicate more efficiently than is normally possible among nonrelatives, even among very close friends. This private language enables family members to exchange more information with greater privacy in a shorter time of period, than can two nonrelatives. However, this private language also triggers negative aspects. This private language is most of the time only understandable for family members and this will keep nonfamily members uninformed. On top, it can also be a weapon in an ongoing family quarrel. Even if the family is most divided, they listen to what is said, regardless of the language used.

(6) Mutual awareness and privacy

Since family members see each other on a day to day basis, they know each other inside out. Therefore, they have a keen awareness of each other's circumstances. They know what makes them happy or angry, how they feel physically, and so forth. This awareness built through three channels; (1) through explicit communication among relatives; (2) family members have a private language which helps to create this awareness of each other; (3) Family members have relatives who may pass on information from one relative to another. Increased awareness improves communication between relatives and gives family members insights on how to support one another. On the other side, increased awareness can also lead some family members to feel watched over and controlled. The combination of heightened awareness and emotional intensity may add up to the feeling that privacy is not available in a family firm.

(7) Meaning of the family company:

The family firm is normally regarded as a part of the family. Therefore, the organization takes on particular meanings for members of the owning family and

relatives often have strong feelings about it. For example, for a son, the firm is the father's creation and the son becomes its guardian, sibling or suitor. Older generations are strongly linked with the organization in a personal manner. The meaning of the company for a family member and the attachment to it are crucial influences on work relationships between relatives. For example, father and son can battle against each other to maintain the control over the company. When strong attachments exist, discussions about company control can become subjective and this can lead to emotional confrontations. In contrast, if family members are strongly attached to the firm, they can be united in their goals for the company. This can define a sense of mission for the organization which nonfamily companies rarely match.

Through these bivalent attributes one can see that the disadvantages of non-family firms, such as lack of trust, communication problems, can be easily compensated for by family firms. Family members have their own private language which allows them to communicate more efficiently than non-family firms. Control mechanisms are not necessary because they know each other already for a very long time, so they trust each other at a very high level. In cases of doubt, relatives can give very strong emotional support, which non-relatives cannot give in that sense of intensity.

Attribute	Advantages (+)	Drawbacks (-)
Simultaneous Roles	Increased family and company loyalty. Fast and effective decision –making.	Norm confusion and anxiety. Family business and ownership issues can get mixed up. Lack of business objectivity.
Shared Identity	Increased family and company loyalty. A strong sense of mission. More objective business decisions.	A stifling sense of being over watched. Antipathy toward family and business.
Lifelong Common History	Relatives can draw out relatives’ strengths and complement their weaknesses.	Family members can point out weaknesses. Early disappointment can reduce trust in work interactions.
Emotional Involvement and Ambivalence	Expression of positive feelings creates loyalty and promotes trust.	Lack of objectivity in communication. Antipathy and guilt can complicate work interactions. Hidden aggression can appear.
Private Language	Allows more efficient communication with greater privacy.	Can trigger sensitive reactions that can distort communication and encourage conditions of conflict.
Mutual Awareness and Privacy	Improved communication and business decisions that support the business, owners, and family.	Can lead relatives to feel over watched and trapped.
Meaning of the Family Company	Company symbolism can develop a strong sense of mission for employees.	Violent rivalries can develop between relatives.

Table 1: Bivalent Attributes
Source: Adopted from Tagiuri and Davis (1996)

In summary one can say that these “Bivalent Attributes” increase trust, generate unusual motivation and strengthen loyalties. As written in the beginning, trust is very important when searching for the right partner to form a nascent entrepreneurial team. It is obvious that strong ties provide greater trust than strangers. Therefore, hypothesis three, which suggests that relatives and acquaintances tend to have higher social capital, is approved.

5. Conclusion

This thesis provides an understanding why a nascent entrepreneur should take one of his “strong ties” (family, close friends) instead of anyone out of his network “weak ties” (friends, acquaintances) to create a nascent entrepreneurial team.

In times of enormous knowledge growth the tendency towards entrepreneurial teams is getting more important than ever, as can be seen by many high-tech start-ups. Thus, it is often seen as the superior entrepreneurial start-up concept. Besides the fact that new ventures need substantial time and capital until they reach the market, they need to find the right partner to form a nascent entrepreneurial team (Lechler, 2001). It is obvious that human and social capital play an important role to answer the key question of this thesis.

Human capital is defined as years of education, skills and experience. Although human capital is crucial for the survival of the new venture, social capital is not less important. Sonderegger (2009) stated that nascent entrepreneurial teams consist of co-founders having a similar level of human capital. But if the nascent entrepreneurial team is created with family ties there is the potential that the team is more heterogeneous concerning their human capital assets. That is obviously true, since in the early stage of the new venture trust (social capital) is more important than skills (human capital) (Brüderl & Preisendörfer, 1998). This finding is also in line with Coleman’s (1988) and Becker’s (1964) theory that social capital becomes human capital and later on human capital becomes financial capital. So the creation of a new business means that existing social relationships have to be activated and new ones formed (Brüderl & Preisendörfer, 1998). According to Dubini and Aldrich (1991) entrepreneurship is an “*inherently a networking activity*” (p. 306). There are mechanisms by which a family network increases success: First, it gives access to unpaid family work and provides, as said before, emotional

support. Especially during the start-up stage, unpaid work from family members can compensate for financial constraints (Brüderl & Preisendörfer, 1998). The ability to rely on family work significantly reduces **operating costs**. Normally family members do have a greater stake in the success of the business and they are more productive than nonfamily workers when hourly wages are low. Family members can be trusted to handle sensitive transactions in which the **risk of opportunism** and malfeasance is high. Therefore, opportunism is decreased by trust (Sanders & Nee, 1996). In addition, loyal employees recruited from the family reduce the controlling costs. Finally, frustrating events often appear during the start-up phase. In this situation the **emotional support** received from a family member might be very helpful to sustain a positive attitude towards the new business (Brüderl & Preisendörfer, 1998).

In summary, one can say that social capital and human capital are both important when founding a nascent entrepreneurial team, regardless if the partners are family members or not. Still, it is more obvious that during the formation stage social capital is more important than human capital although, it is not empirically examined.

Non-family firms have many disadvantages which are compensated in family firms. Family members enable the nascent firm to economize on production and transaction costs (e.g. costs for searching an employee). This is not possible in non-family firms, because they first have to search for an employee. In the beginning of founding a new venture and therefore a nascent entrepreneurial team, it is easier to take someone from the family, since one does not have to search very long for anyone else. Strong ties reduce controlling costs and the risk of opportunism due to high trust. Since in non-family firms trust is not as high as in family firms, they cannot go without control mechanisms. Furthermore, the family can give important emotional support in moments of doubt.

Finally one can conclude that during the conception stage choosing someone out of the family is advisable, because they reduce transaction costs and as Light and Karageorgis (1994) supposed that *“highly developed social networks...can compensate shortfalls of human capital”* (p. 658). This means that the family network can compensate missing human capital at the beginning. Later on it is advisable to search for a partner with the desired knowledge and experience.

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Appendix

Abstrakt

Die Annäherung am Unternehmertum über Netzwerke ist ein bekannter theoretischer Rahmen innerhalb der Literatur. Es wird die Ansicht unterstützt, dass Netzwerkressourcen, Netzwerkaktivitäten und die Unterstützung von Netzwerken verwendet werden, um neue Unternehmen zu gründen. Außerdem sind die Unternehmer die über ein breites und vielfältiges soziales Netzwerk verfügen, erfolgreicher. Basierend auf diesem theoretischen Hintergrund ist das Ziel dieser Diplomarbeit die Frage zu beantworten, warum ein Jungunternehmer jemanden aus seiner Familie als Partner auswählen sollte, anstatt eine Person, die über mehr Wissen und Erfahrung verfügt, um ein neues Unternehmen zu gründen. Diese Arbeit unterstützt die Ansicht, dass es während der Gründung des neuen Unternehmens durchaus Sinn macht, jemand aus der Familie als Partner auszuwählen. Innerhalb der Familie ist ein höheres Sozialkapital verfügbar und dadurch auch ein außerordentliches Maß an Vertrauen vorhanden. Diese Fakten bieten den Familienunternehmen Wettbewerbsvorteile gegenüber Unternehmen, die nicht gemeinsam mit Familienmitgliedern gegründet worden sind. Unternehmen die mit Familienmitgliedern gegründet worden sind lassen Transaktionskosten sinken. Suchkosten sind minimiert, da der Jungunternehmer niemanden aus einer Gruppe von Bewerbern auswählen muss, sondern das Familienmitglied bereits vorhanden ist. Familienmitglieder reduzieren Kontrollkosten und das Risiko von opportunistischem Verhalten, da zwischen Familienmitgliedern ein ausgeprägtes Maß an Vertrauen vorhanden ist. Außerdem gibt die Familie emotionale Unterstützung und Halt in Zeiten, in denen man als Jungunternehmer daran zweifelt, die richtige Entscheidung getroffen zu haben.

Lebenslauf

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Sprachkenntnisse

Deutsch (Muttersprache)
Englisch (sehr gute Kenntnisse in Wort und Schrift)
Spanisch (Grundkenntnisse)
Französisch (Grundkenntnisse)

EDV-Kenntnisse

MS-Office (Word, Excel, PowerPoint):
sehr gute Kenntnisse

Lotus Notes: Anwenderkenntnisse

Bank Trade: Anwenderkenntnisse