The Difference between Entrepreneurs and Managers in the Accumulation of Social Capital

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ABSTRACT

This paper difference between entrepreneurs and managers in the accumulation of social capital. The analysis for this study involved responses from 50 entrepreneurs and 50 managers in Vietnam. The research results shown three facts that support the predictions: (1) social capital is higher among entrepreneurs, (2) the social capital of entrepreneurs rises with firm age, while such behavior is not observed for managers (3) entrepreneurs who invest in human capital also invest in social capital, while such correlation is not observed for managers.

KEYWORDS: entrepreneurs, managers, social capital, difference

1. INTRODUCTION

Many economists have argued that entrepreneurial behavior is caused by market disequilibrium that creates an opportunity for entrepreneurs to obtain above average profit. While stressing external market mechanism in motivating entrepreneurial activity, these models offer little help in explaining why some individuals are able to identify and exploit these opportunities, whereas others are not. This had led some economists to recognize that entrepreneurs have “special attitudes” (Schumpeter, 1934), “special resources” (Schultz, 1975), and extraordinary degree of “alertness” to opportunities (Kirzner, 1973).

Previous research on differences between entrepreneurs and managers has generally examined psychological and personal/demographic differences (Begley and Boyd, 1987; Begley, 1995; Busenitz and Barney, 1997). In recent years, research focusing on entrepreneurial social capital has shown that social capital is an important predictor of success in nascent entrepreneurship (Davidsson and Honig, 2003; Bosma, van Praag, Thurik, and de Wit, 2004). Unfortunately, this work focusing only on entrepreneurs has been unable to completely examine the way in which entrepreneurs and managers acquire social capital.

Research focusing on the creation process of social capital asserts that individual differences exist according to the different incentives that different individuals have (Glaeser, Laibson, and Sacerdote, 2002; Dipasquale and Glaeser, 1999; Carroll and Teo, 1996). This study is consistent with this group of scholars, particularly that of Carroll and Teo (1996) who examined the difference in the accumulation of social capital between managers and workers. Our intent is to better understand the formation of social capital of entrepreneurs and managers.

2. Literature review

Entrepreneurial Social Capital

A wide variety of socio-economic factors, including kinship ties and membership in business associations, has been shown to enhance the performance of nascent entrepreneurs (Davidsson and Honig, 2003; Bosma, et al., 2004). Research focusing on differences in networking behaviors between entrepreneurs and other types of individuals is mostly interested in those between entrepreneurs and non-entrepreneurs. Burt (2000) adopted a sample of 814 alumnas from the University of Chicago Graduate School of Business to study women's paths through entrepreneurship, and preliminary reported that entrepreneurs cited more contacts beyond family and work, and relations with key client contacts are beyond an entrepreneur's immediate circle of contacts, than do non-entrepreneurs.

Formation of Individual Social Capital

Souter (2000) have raised crucial questions about the reliability of this class of survey measure. Subjects who report that they are trusting, do not act more trusting in a standard trust game. Furthermore, Glaeser et al. (2002) also
reveals certain reservation about using the trust question when one needs to measure individual social capital, rather than to measure aggregate social capital at the state, regional, and community level, because being more trusting may not necessarily benefit the thruster, but it often benefits the trustee.

The second empirical approach to social capital emphasizes evidence on organization membership. Putnam (2000) presents the most thorough analysis of this evidence. The network formed in the community creates social capital, because it affects access to information, and it facilitates trust and norms by facilitating effective sanctions, and creating reputation effect. Glaeser et al. (2002) adopted General Social Survey to estimate the social capital investment model at the individual level, and concluded that the differences in the number of membership that individuals have could largely be explained by the standard investment model. Additionally, they reported that individuals’ social capital increases in their youth but it begins to decreases in older ages. They also found that highly educated individuals tend to have more community membership, and education and social capital are complements. Dipasquale and Glaeser (1999) used GSS and German Socio-economic Panel to examine the difference between homeowners and home renters, and found that homeowners invest more in social capital, and this finding results from the lower mobility of homeowners relative to home renters. Carroll and Teo (1996) also adopted GSS to examine the difference between managers and workers, and found that managers accumulated more social capital. Unfortunately, organizational membership measure does not take into account the size of the network within an organization or the intensity of participation.

In addition, Glaeser et al. (2002) discussed two broad classes of social capital, although these are only two of the many forms of social capital: social network and status. Joining a social network leads to information flows, creation of trust, loyalty, altruism, and cooperation. The accumulation of status or influence might also be seen as a measure of social influence that enables its possessors to reward and punish others, extract larger rents. However, the empirical part of their study was unable to distinguish these two notions.

Trade Association and Social Capital
The social capital of entrepreneurs and managers results in the purposive collaborations of organizations attempting to manage their interdependency. Bresser (1988) differentiated five broad classes of coordination mechanisms such as: regulative legislation resulting from collective lobbying; contracting; interlocking directorates; trade associations; industry leadership; and collusion. Bresser classified trade associations and interlocking directorates as coordination mechanisms with moderate degree of formalization. The regulative legislation and contracting are characterized by high levels of formality, whereas collusion as well as industry leadership can be classified as informal coordination mechanisms. As regulative legislation and contracting cannot be seen as the result of the community activities, and collusion and industry leadership are usually not observed, it might be useful to focus on trade associations in the study of social capital of entrepreneurs and managers. Trade associations are typically non-profit organizations formed by firms in the same industries to collect and disseminate trade information, offer legal and technical advice, furnish industry-related training, and provide a platform for collective lobbying (Barringer and Harrison, 2000). Trade associations are also collective bodies that are intermediary between individual business action and state action (Bennett, 1999).

Though conceptually, the previous literature has differentiated two broad categories of demand for business associations: the logic of influence and the logic of services (Olson, 1971). The logic of influence relates to the role of an association to behave collectively in the interests of all, or at least the majority of its members’ interests. Firms can increase their collective power by forming an organization that can hire professional lobbyists and management (Barringer and Harrison, 2000). The logic of services leads to associations to respond to member’s individual and specific demands. The dissemination of trade-related information on raw materials, employee training, technologies, and demand forecast helps members of a trade association improve efficiency, reduce search costs, and stabilize industry environment. Consistent with the discussion, the primary advantages of the firms participating in trade associations are collective lobbying, operating efficiency, cost savings, and learning. However, very little empirical research has focused on trade associations (Barringer and Harrison, 2000).

3. Research methodology
The sample consists of the top managers who (a) had individual membership in the trade association; (b) who took part in the activities of trade associations most frequently than other types of business associations. Grubbs’ test for outliers was conducted, and 6 observations were identified as outliers at 95 percent confidence level. These observations were excluded from analysis.

Entrepreneurs and Managers:
Since identifying entrepreneurs has been historically rather problematic, we chose widely used approach. Entrepreneurs defined in this study had to have been a founder of the identified firms. Being responsible for organizational creation is widely used as a distinguishing feature of entrepreneurship (Begley and Boyd, 1987). This variable was coded as 1 if the top manager had been a founder of the subject’s firm, and 0 otherwise. The definition of founders had to rely on the perception of respondents. Among those who had been recognized as founders by their assistants, some had tenure shorter than the age of firms, and they were likely to be mere investors but later succeeded the startup founders. We coded them, as managers.

Measures
The central goal of this study was to measure the intensity of participation in trade associations as a part of the social capital creation of entrepreneurs and managers. Thus, some diversity of the sociability of these two groups of individuals was sought to give a better representation of participation patterns. To measure the intensity of participation, two questions were developed. Subjects were firstly asked to indicate the particular trade association that their employers turned up most often. About this particular association, they were asked to rate the frequency of attendance of their employers at (1) the inner staff meetings such as governance boards, committees, sectional meetings, and (2) the activities
to which all members are eligible to attend, such as annual member conventions, fact-finding tours, and social gatherings. The response was based on 0-6 scale: score: never, less than once a year, about once or twice a year, several times a year, about once a month, 2-3 times a month, and nearly every week.

This interval rating scale was transformed so that it represents how many days in a year a top manager had took part in, by substituting the midpoint of each interval range. In most of the social capital literature, group effects at the state, regional, and community-level on social capital formation are the principal topic of study. To evaluate the practical predictive power of this approach, we examine how much of the individual variation in social capital is driven by the industry to which one belongs. Mutivariate analysis of variance test was conducted to test group-level variation in our social capital variables. The test using Wilks Lambda criteria was statistically significant ($F = 1.88, p = 0.002$). Thus, the difference between industrial groups might be significant. One effective approach for minimizing between-group variation is group-standardized tests, and in our analysis, the yearly frequency of participation was standardized within each two-digit-SIC group. The top managers who had never participated in the activities were excluded from the computation. Moreover, several minor industrial groups that does not include five or more top managers who had ever taken part in both of the activities, were excluded from the analysis Shapiro–Francia normality test was conducted to examine the completeness of the standardization procedure. In 5 of 19 industries, the distribution of the industry-standardized governance activity variable was closely conformed to the normal distribution, and that of the networking activity variable is closely conformed to the normal distribution pattern in 15 of 19 industries.

Because these measures were not observed for the individuals who had no experience of participating in, this may lead to biased estimates of the effect of the entrepreneur variable on social capital. Methodologically, the most widespread method for addressing this bias is to adopt the sample selection model. As it is desirable to include the instrumental variable for credible implementation, the organizational age of trade associations was included in the reduced-form equation of the individual decision on whether to enter the associational activities. As the association ages, the boundaries of organizations becomes clearer, and this may act as barriers for new participants to enter. On the other hand, it is unlikely that how old the trade association was affect directly how frequently participants turn up the meeting. All of the empirical work that follows was replicated with the sample selection model and no results meaningfully changed.

**Control Variables**

Previous research on trade associations has generated many implications, and we chose to include various measures of these variables. Also, the determinants of social capital formation have been included as previous research on the formation of individual social capital suggests.

**Market Structure:**

Although the between-group variation at the two-digit SIC level has been already minimized by using industry-standardized coefficient estimates, there appears to remain uncontrolled variation between the three-digit industrial groups. The market structure is important because the stability of trade associations as interfirm coordination mechanism is largely affected by the structure. As reviewed by Oliver (1990), the formation of stable trade associations is usually hampered in the oligopolistic industry where tacit informal collusion could achieve more efficient coordination, nor is it easy in the presence of very large number of competitors because of possible coordination failure. Thus, effectiveness of trade associations might be the quadratic function of the degree of market concentration. The market concentration was assessed by using Herfindahl-Hirschman Index (HHI), and the nonlinear function of HHI is specified in the model.

**Government Involvement:**

The degree of government involvement in the particular market was also included in the model, since trade associations are usually collective bodies that intermediates state action. This was measured at the three-digit industry level by using the input coefficient for net indirect tax (indirect tax minus subsidy). Put differently, this variable implies how much governmental transfer is on average included in the values of goods and services that had been sold in the particular market.

**Firm Size and Firm Age:**

The top managers of large or old firms are more likely to have greater influences, establish reputations, and be regarded as trustworthy. Firm size was measured in annual sales. For the firm size variable, the logarithmic form was utilized.

**Sales Growth:**

Because the smaller and younger firms tend to growth faster, annual sales growth rate was included in the model to isolate size- and age-effect from the effect of growth rate.

**Individual Demographic Characteristics:**

Individual age, gender, education were also included in the model. The positive relationship between social capital and human capital is well known empirical regularity in the social capital literature, although there have been many interpretations of the evidence (Glaeser et al., 2002). Education was measured by using the year of education.

**Organizational Position:**

The difference in participation between chairmen and presidents were controlled for by the 0/1 indicator coded as 1 if the individual’s position was the chairman, and 0 if it was the president.

**Associational Leadership:**

The number of leadership positions (directors and auditors) held by entrepreneurs and managers was also included in the model, because those who had been elected as associational leaders may always behave in the way consistent with the expectation of other members.

4. **Results and discussion**

The descriptive statistics in Table 1 provide an overview of our sample. The majority of our respondents were male; the average age was 57 years, and the average years of education were 16 years. About 4 in 10 respondents were
organizational founders. The average number of leadership positions of trade associations held by our respondents was 0.5. The variable firm age revealed that on average, our respondents had worked for the firms that had been established for 24 years, but the dispersion was substantial, ranging from 2 years to 57 years.

Table 1 Descriptive Statistics and Correlations

<table>
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<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>Min</th>
<th>Max</th>
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<th>2</th>
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<th>5</th>
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<tr>
<td>Log Sales</td>
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<td>1.39</td>
<td>4.66</td>
<td>11.76</td>
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<td>0.11</td>
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<td>57.00</td>
<td>0.02</td>
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<td>0.09</td>
<td>0.13</td>
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<td>Sales Growth</td>
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<td>(HII)²</td>
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<td>0.08</td>
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<td>1.00</td>
<td>0.13</td>
<td>0.08</td>
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<td>0.06</td>
<td>0.02</td>
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<td>0.07</td>
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<td>2.00</td>
<td>0.33</td>
<td>0.28</td>
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<td>Missing</td>
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<td>0.03</td>
<td>0.24</td>
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<td>0.04</td>
<td>0.05</td>
<td>0.12</td>
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<tr>
<td>Entrepreneurs/Managers</td>
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<td>0.49</td>
<td>0.00</td>
<td>1.00</td>
<td>0.11</td>
<td>0.05</td>
<td>0.10</td>
<td>0.11</td>
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<td>0.10</td>
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<td>0.09</td>
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</tr>
</tbody>
</table>

S.D.: standard deviations

Further bivariate analysis was conducted with the status and network variables. Table 2 presents the results of ordinary least squares estimation. Model 1 tested the effect of the entrepreneur on the governance activity variable. The entrepreneur variable is significant and in the expected direction. Model 2 tested the effect on the networking activities variable. As expected, the effect of the entrepreneur variable is significant and positive. Further examination was conducted by separating entrepreneurs and managers. Model 3 examined the determinants of the governance activity variable for entrepreneurs, and in model 4 we tested those of the networking activity variable, whereas in models 5 and 6, we tested the same model for the sample of managers. We argued that as the firm ages, entrepreneurs accumulate social capital much faster than do managers. For entrepreneurs, the effects of firm age on governance activity and networking activity variables were both significant and positive, whereas neither of them was significant for managers. So, entrepreneurs become more likely to increase social capital as the firm ages. By contrast, managers are unlikely to increase the stock of social capital even though firm age increases. This lends support for hypotheses 3 and 4. The positive and significant effect of the entrepreneur’s education on the governance activity variable in model 4 suggests that for entrepreneurs, human capital is likely complementary to the accumulation of status and influence.

Table 2 Ordinary Least Squares Models of the Intensity of Participation in the Activities of Trade Associations

<table>
<thead>
<tr>
<th>Variables</th>
<th>Governance Activities</th>
<th>Networking Activities</th>
<th>Governance Activities</th>
<th>Networking Activities</th>
<th>Governance Activities</th>
<th>Networking Activities</th>
</tr>
</thead>
<tbody>
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<td>Combined Sample</td>
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<td>Managers Only</td>
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<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
<td>Model 4</td>
<td>Model 5</td>
<td>Model 6</td>
</tr>
<tr>
<td>Female</td>
<td>0.638*</td>
<td>0.203</td>
<td>-0.548</td>
<td>0.379**</td>
<td>0.761*</td>
<td>-0.157</td>
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<td>(0.356)</td>
<td>(0.391)</td>
<td>(0.011)</td>
<td>(0.011)</td>
<td>(0.017)</td>
<td>(0.016)</td>
<td>(0.017)</td>
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<tr>
<td>Individual Age</td>
<td>0.007</td>
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<td>0.003</td>
<td>0.003</td>
<td>0.017</td>
<td>-0.009</td>
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<tr>
<td>Years of Education</td>
<td>0.039**</td>
<td>0.011</td>
<td>0.065**</td>
<td>0.052</td>
<td>0.023</td>
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<td>(0.022)</td>
<td>(0.021)</td>
<td>(0.031)</td>
<td>(0.035)</td>
<td>(0.037)</td>
<td>(0.031)</td>
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<tr>
<td>Log Sales</td>
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<td>0.055</td>
<td>0.157**</td>
<td>0.002</td>
<td>0.030</td>
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<td>(0.048)</td>
<td>(0.047)</td>
<td>(0.063)</td>
<td>(0.086)</td>
<td>(0.060)</td>
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<tr>
<td>Firm Age</td>
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<td>-0.002</td>
<td>0.030**</td>
<td>0.025**</td>
<td>0.003</td>
<td>-0.010</td>
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<td>(0.004)</td>
<td>(0.006)</td>
<td>(0.011)</td>
<td>(0.013)</td>
<td>(0.005)</td>
<td>(0.006)</td>
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<tr>
<td>Sales Growth</td>
<td>-0.001</td>
<td>0.001</td>
<td>-0.007**</td>
<td>0.001</td>
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<td>(0.002)</td>
<td>(0.002)</td>
<td>(0.003)</td>
<td>(0.004)</td>
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</tbody>
</table>
Further bivariate analysis was conducted with the status and network variables. Table 2 presents the results of ordinary least squares estimation. Model 1 tested the effect of the entrepreneur on the governance activity variable. The entrepreneur variable is significant and in the expected direction (lending support for Hypothesis 1). Model 2 tested the effect on the networking activities variable. As expected, the effect of the entrepreneur variable is positive and significant (confirming Hypothesis 2). Further examination was conducted by separating entrepreneurs and managers. Model 3 examined the determinants of the governance activity variable for entrepreneurs, and in model 4 we tested those of the networking activity variable, whereas in models 5 and 6, we tested the same model for the sample of managers. We argued that as the firm ages, entrepreneurs accumulate social capital much faster than do managers. For entrepreneurs, the effects of firm age on governance activity and networking activity variables were both significant and positive, whereas neither of them was significant for managers. So, entrepreneurs become more likely to increase social capital as the firm ages. By contrast, managers are unlikely to increase the stock of social capital even though firm age increases. This lends support for hypotheses 3 and 4. The positive and significant effect of the entrepreneur’s education on the governance activity variable in model 4 suggests that for entrepreneurs, human capital is likely be complementary to the accumulation of status and influence.

### 5. Conclusions

This research has important implications for future work on social capital creation. In particular, most previous work has focused on understanding whether managers and workers vary in the extent to which they successfully accumulate social capital (Carroll and Teo, 1996). This research moves to another question: Do entrepreneurs and managers vary in the extent to which they create social capital? The results of this study suggest that being entrepreneurs results in significant increases in both network and status. Previous work on individual social capital has also found that individual age and social capital formation have a significant relationship (Putnam, 2000; GlAESer, 2002). This research focused on the social capital of entrepreneurs and managers, and the results suggest that in the social capital creation of entrepreneurs, firm age in particular, is a more important predictor than is individual age. This study also has important implications for future work on the entrepreneurship literature. Most previous work focused on understanding whether human capital affects the entrepreneurial success. The results of this study suggest that entrepreneurial human capital has a significant complementarity with the accumulation of status or influence. In the social capital literature, there are many interpretations of the connection between social capital and human capital. One explanation includes the possibility that we learn social skills in school, or that individuals with high levels of human capital (e.g., good language and communication skills) simply get relatively high levels of utility out of social interaction (GlAESer et al. 2002). Of course, there may be other explanations, but this connection is particularly strong for entrepreneurs.

### References


