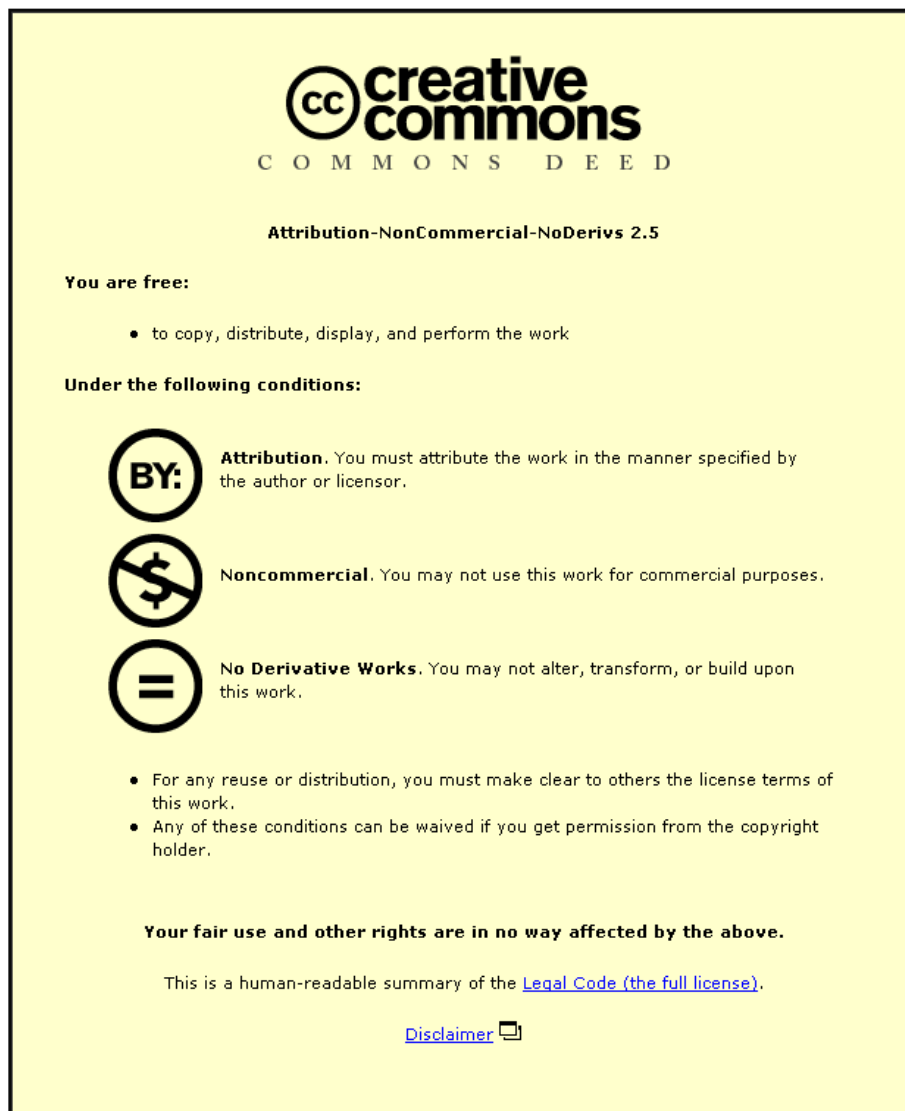




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
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**A Study of Human Capital Development  
in Young Entrepreneurs**

by

**James Hickie**

**Doctoral Thesis**

Submitted in partial fulfilment of the requirements

for the award of PhD of

**Loughborough University**

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## **ABSTRACT**

In recent years young entrepreneurs have attracted considerable attention from policy makers and the media, and there is evidence that increasingly many young people aspire to start their own business. However, there has been little research into how young entrepreneurs actually build their businesses, and the limited existing research about young entrepreneurs has tended to focus on participants who have struggled to achieve business survival and growth.

By contrast, this thesis investigates how young entrepreneurs are able to build high performing businesses. All participants have built a business with a turnover between £1 million and £90 million or otherwise raised at least £1 million in external investment. It takes a qualitative approach, based primarily on semi-structured interviewing, to understanding the knowledge and skills 21 young entrepreneurs used to build their businesses. It uses a human capital theory framework to analyse how the young entrepreneurs developed relevant knowledge and skills prior to start-up in order to build a business. It then considers what additional human and social capital the young entrepreneurs acquired during the venture creation process itself.

The findings identify three different pathways, each of which typifies the human capital used by particular young entrepreneurs, according to their educational background and the precise age at which they started their business. The study also establishes the necessary human capital which all of the young entrepreneurs developed prior to start-up or during the early stages of starting their ventures, which was important to their success in growing a business. The study finally contributes to the debate about whether general human capital or venture-specific human capital is most important to entrepreneurs, finding that for young entrepreneurs developing pre-start-up general human capital is particularly significant.

## **ACKNOWLEDGEMENTS**

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## CHAPTER 1: INTRODUCTION

Young entrepreneurship has caught the imagination of policy makers and the media in recent years. In the 2012 Budget, George Osborne, the United Kingdom (UK) Chancellor of the Exchequer, announced the piloting of a government loan scheme to encourage young people to set up their own businesses (*The Guardian*, 21<sup>st</sup> March, 2012). Television programmes such as ‘The Apprentice’ and ‘Dragons’ Den’ have also regularly presented the idea of young people wanting to set up a business as a positive and aspirational economic activity, encouraging them to consider an entrepreneurial career (Aldrich and Yang, 2012). Surveys of young people also find that high proportions of them would like to set up a business in the future (RBS, 2012; Kourilsky and Walstad, 2007).

Yet despite this public policy and media attention, young entrepreneurship has received little research attention, and in particular high performing young entrepreneurship has benefited from even less academic investigation. Bygrave (2007) points out that many entrepreneurship studies have in fact been primarily about self-employment. The focus of this thesis is on entrepreneurs, not young people who are simply self-employed (Carland et al, 1984). Each participant must have started their business before the age of 30. They must have employed at least five staff, built an annual turnover above £1million or raised £1million in investment, and have been trading for at least three years. As Packham et al have suggested, using “the minimum turnover threshold represents an attempt to identify firms rather than self-employed individuals” (2005: 486).

The main aim of this research is to identify the knowledge and skills which young entrepreneurs use to build their businesses. This includes the knowledge and skills they develop pre-start-up through their family background, education and work experience. It also involves identifying how they use these existing knowledge and skills and develop new knowledge and skills in building their first main ventures. Their first main venture is defined here as the first one they set up which fulfills the criteria above. As Aldrich and Yang suggest, there are not many studies identifying in detail, “what nascent entrepreneurs do prior to their start-up attempts, as well as of what they actually do during their organising efforts” (2012: 12). So, as well as researching participants’ pre-start-up human capital development, this study will also research how participants approach opportunity identification, marketing, finance, people management and business planning in terms of the human capital they use.

This chapter outlines: the theoretical background of the thesis; the policy context; how the author's interest in the topic arose; and, the research methodology adopted.

## **1.1 Theoretical Background**

There is a limited existing literature on young entrepreneurs in the UK, with some of the most significant studies being primarily undertaken from a policy perspective (e.g. Greene 2002; Blanchflower and Oswald, 2009) or identity perspective (e.g. Rouse, 2004). The existing small number of studies that focus primarily on young entrepreneurs' venture creation activities have generally studied ventures which have performed weakly, with high rates of business failure (Rosa, 2003; McLarty, 2005). There has been little theory development in relation to young entrepreneurship, with studies more likely to focus on empirical findings (Lewis and Massey, 2003). Human capital theory will be applied to young entrepreneurship for the first time in this thesis, to understand the knowledge and skills required to build a strongly performing venture. So, this study will make an original contribution to the young entrepreneurship literature both theoretically (analysing young business founders' human capital development) and empirically (by focusing on a group of high performing young entrepreneurs).

Despite the negative findings of the small number of UK studies about young entrepreneurs' ventures, there are good reasons to recognise some young business founders' activities as being economically significant. Timmons and Spinelli (2009) demonstrate clearly that young entrepreneurship should be taken seriously as forming a significant part of the development process of some of the world's leading entrepreneurs, who they term 'mega entrepreneurs'. They point out that becoming a mega entrepreneur takes many years, and often involves starting an entrepreneurial career before the age of 30. Timmons and Spinelli argue that such entrepreneurs often do not build their most significant venture the first time round, but build one or two smaller ventures first (each of which may take up to seven years or more to build), before building their most significant venture. Examples they provide of well known entrepreneurs who started businesses before the age of 30 are provided in Table 1.1. There is also evidence that young entrepreneurs are creating significant businesses in important growth areas of the economy, in particular e-commerce (Carrier et al, 2004). A majority of the participants in this study have also started a business involving the significant use of online technologies and/or IT.

**Table 1.1: Entrepreneurs Who Started Before Age 30**

Entrepreneurial company	Founder(s)
Microsoft	Bill Gates and Paul Allen
Netscape	Marc Andressen
Dell Computer	Michael Dell
Apple Computer	Steve Jobs and Steve Wozniak
Federal Express	Fred Smith
Google	Larry Page and Sergey Brin
Genentech	Robert Swanson
Nike	Phil Knight
Lotus Development Corporation	Mitch Kapor
Yahoo!	David Filo and Jerry Yang
Paypal	Max Levchin
Skype	Janus Friis
Facebook	Mark Zuckerberg
YouTube	Chad Hurley
Virgin	Richard Branson
Amstrad	Alan Sugar

(Table adapted from Timmons and Spinelli, 2009)

Human capital theory was developed by Becker (1964) to understand people's decisions to invest in themselves as economic actors, but not investigating entrepreneurs' behaviour in particular. Becker said that, "In human capital theory, people rationally evaluate the benefits and costs of activities such as education, training, expenditures on health, migration, and the formation of habits that radically transform the way they are" (1964: 402).

Starting with Cooper et al (1994), there has been a growth of studies investigating the human capital of entrepreneurs in particular, and how this impacts upon their entrepreneurial performance. Davidsson and Honig explain that, "Human capital theory maintains that knowledge provides individuals with increases in their cognitive abilities, leading to more productive and efficient potential activity...therefore if profitable opportunities for new economic activity exist, those with more or higher quality human capital should be better at perceiving them. Once engaged in the entrepreneurial process, such individuals should also have superior ability in successfully exploiting opportunities" (2003: 305). The literature on human capital theory and entrepreneurship (e.g. Cooper et al, 1994; Gimeno et al, 1997; Davidsson and Honig, 2003; Shepherd and DeTienne, 2005; Ucbasaran et al, 2006) is used in this thesis to identify and evaluate the knowledge and skills which young entrepreneurs bring

to their businesses. It also provides a basis for assessing the ways in which such assets may be used as these businesses grow in their early years. While there have been many studies of human capital and entrepreneurship from a quantitative perspective, Pickernell et al argue that, “qualitative investigation is, for example, required to explore the reasons behind these [human capital] statistics” (2011: 198). So, this study makes a contribution to human capital theory more broadly, investigating the advantages and disadvantages of using it from a qualitative rather than quantitative perspective. A qualitative approach is particularly effective for investigating the management practices of entrepreneurs within their businesses (Packham, 2001).

Following a number of human capital studies of entrepreneurship (e.g. Davidsson and Honig, 2003; Mosey and Wright, 2007), this study will adopt social capital theory as a complementary theory to analyse the development of the young entrepreneurs’ networks and the resources they provide access to. Studying human capital without considering its interaction with social capital can lead to an ‘under-socialised’ perspective on human capital development (Nahapiet, 2011).

## **1.2 Policy and Practice Background**

Researching how young entrepreneurs are able to build resilient businesses is particularly relevant to policy making at the moment. There have been recent calls by experienced entrepreneurs, led by Richard Branson, for the government to provide incentives to encourage young people to set up businesses (*The Guardian*, 21 March 2012). In response the government announced that it would spend £82.5 million providing loans to young entrepreneurs who wanted to start a business (Number Ten website, 2012). This enthusiasm for young entrepreneurship amongst politicians and policy makers is reflected in the intentions and actions of university graduates. The UK Graduate Careers Survey 2010 found that 6% of graduates finishing university wanted to either set up their own business or work on a self-employed basis.

Broader government entrepreneurship policies, not purely focused on young entrepreneurs, have also proved particularly relevant to this group of business founders. The Start-Up-Britain campaign to encourage entrepreneurship across all ages was led by a group of young entrepreneurs, including James Murray Wells, the founder of Glasses Direct. The government’s support for Tech City to encourage internet technology start-ups around the

Old Street Roundabout area in East London has also involved many young entrepreneurs, who are particularly likely to set up online technology businesses.

There has also been an increasing policy and practical interest in young entrepreneurship at a pan-European level. The economist and former member of the Bank of England's Monetary Policy Committee, David Blanchflower, has argued that encouraging young people to set up their own businesses is a valuable way to tackle youth unemployment in Europe. Blanchflower and Oswald (2009) suggest that young entrepreneurs not only create jobs for themselves, but they may also be more likely to employ other young employees compared to older employers. Later in 2012, the Global Entrepreneurship Monitor team will be producing a special issue paper on detailed rates of young entrepreneurship for the first time, reflecting the growing interest in the topic (Global Entrepreneurship Monitor, personal communication, 2012). Lewis and Massey have argued, "The youth of today... are forming their attitudes to employment and work in an age where there is an unprecedented focus on entrepreneurship and its stimulation: a global push for a culture of enterprise and the development of entrepreneurial individuals" (2003: 206).

There has been a growth of both public sector and private sector run programmes and competitions for young entrepreneurs in the UK. In universities, public sector programmes to encourage young entrepreneurship have been run by the National Centre for Entrepreneurship in Education and the SPEED Programme (Rae, 2009). There has also been a growth of student and graduate entrepreneurship incubators at institutions such as Manchester Metropolitan University, Teesside University, Nottingham Trent University and St John's Innovation Centre (funded by St John's College, University of Cambridge). The Prince's Trust has also received public funding to encourage disadvantaged young people to set up businesses (Greene, 2005; Rouse, 2004).

Experienced investors have become increasingly interested in identifying successful young entrepreneurs following the success of particular young business founders in establishing globally important firms such as Google, You Tube and Facebook (*Financial Times*, 5 May 2012). The most significant programme in the UK for young entrepreneurs is Seedcamp, set up by the venture capitalist, Saul Klein, in 2008 to promote the development of technology start-ups (see Klein, 2009). The majority of participants are under the age of 30. The competition is run annually and the winners gain investment in exchange for equity. Winners

also receive considerable mentoring from experienced investors and entrepreneurs. There are a growing number of programmes in the UK such as Seedcamp which offer a combination of mentoring and investment in exchange for equity (sometimes called ‘accelerator’ programmes), which were originally inspired by the Silicon Valley boot camp, Y Combinator (*Sunday Times*, 17 June, 2012).

Web Mission, designed to assist well established technology start-ups to pursue high growth trajectories, has been popular amongst ambitious entrepreneurs, although run less frequently than Seedcamp (March, 2011). The Web Mission 2011 programme enabled online business entrepreneurs to, “travel to San Francisco... to explore opportunities for growth with key investors, potential partners and customers, media and other stakeholders in Silicon Valley” (Web Mission website, 2011).

There has been a growth of entrepreneurship education both in schools and universities. The Federation of Small Businesses and Young Enterprise have been involved in expanding the amount of entrepreneurship education taught in schools (Federation of Small Businesses, 2012). In universities there are a diverse range of approaches to entrepreneurship education, both including it within other disciplines and teaching it as a discipline in its own right (Gibb, 2002; NESTA, 2008).

Despite the growth of entrepreneurship education and programmes for entrepreneurs, however, research participants in this thesis had only undertaken entrepreneurship education in two cases, having generally gone through education before the introduction of recent enterprise education policies. Pickernell et al (2011) also identified that while there has been a significant growth in entrepreneurship education programmes in recent years, participants in their human capital research were too old to have experienced these recent curriculum changes.

### **1.3 My Interest in the Topic**

As an undergraduate attending the Cambridge Entrepreneurs Society, it fascinated me how some entrants to the society’s business plan competition had gone on to build very successful businesses, yet had little previous work experience. After leaving university, young entrepreneurship continued to interest me, as I observed the emerging entrepreneurial careers of friends who set up their own businesses.



I also completed two consultancy projects with entrepreneurial businesses in my hometown of Chester, with Moneysupermarket.com (a price comparison website) and Big Storage (a self-storage company). I finished the project with Moneysupermarket.com just before I started my PhD. It was inspiring to meet the founder of the firm, Simon Nixon, during the project, and to learn that he himself had started his first business in his early twenties, before going on to build and then publicly float Moneysupermarket.com.

#### **1.4 Methodology**

This thesis adopts a cross-sectional research design to study young entrepreneurs' human capital development. According to Bryman (2008: 44), "A cross-sectional design entails the collection of data on *more than one case...* and at *a single point in time* in order to collect" a body of data. He points out that this form of research design is often used for both qualitative and quantitative studies. In this study, 21 young entrepreneurs have been interviewed to find out about the knowledge and skills they have used to build their businesses.

The research takes a qualitative approach to studying young entrepreneurs' human capital. It uses semi-structured interviewing, and considers human capital development from the perspective of the young entrepreneurs themselves in their own words. While certain themes are derived partly from existing human capital research, new themes and understandings also emerge by asking the interviewees open ended questions about their experiences.

The overall aim of this project has been to research the ways in which young entrepreneurs acquire the skills and knowledge to start and build their first main venture. This leads to the following research questions:

Research Question 1: What useful knowledge and skills do the young entrepreneurs believe they developed prior to starting their first main ventures?

Research Question 2: In what ways do the young entrepreneurs utilise their existing knowledge and skills, and develop new knowledge and skills, in approaching the opportunity identification and marketing of their first main ventures?

Research Question 3: In what ways do the young entrepreneurs utilise their existing knowledge and skills, and develop new knowledge and skills, in approaching the finance, people management and business planning of their first main ventures?

Research Question 4: How does human capital theory contribute to understanding the knowledge and skills young entrepreneurs use to start and build businesses?

### **1.5 Structure of the Thesis**

Following Chapter 1 (the Introduction), the thesis will take the following format.

Chapter 2 provides a review of the literature on human capital theory and young entrepreneurship. It includes sections on: defining the concept of entrepreneurship; the disciplinary context of the thesis (economics, sociology, psychology); human and social capital theories; and, young entrepreneurs.

Chapter 3 explains and justifies the research design and the methodological choices made in preparing the thesis. It includes sections on: the research questions; the research philosophy; sample selection; data collection; and, data analysis.

Chapter 4 sets out the findings of the study regarding the young entrepreneurs' development of knowledge and skills before they started their first main ventures. It has sections on: family background; school and university; early informal ventures; and, work experience.

Chapter 5 is about how the young entrepreneurs used their existing knowledge and skills, and developed new knowledge and skills, in starting and building their first main ventures. It sets out the findings regarding: opportunity identification; starting the business with a co-founder; marketing; finance; people management; business planning; and, social capital.

Chapter 6 offers a discussion of the results presented in Chapters 4 and 5 in the light of the existing literature.

Chapter 7, the Conclusion, sets out: the key findings of the research; methodological reflections; limitations of the research; and, a potential future research agenda.

## CHAPTER 2: LITERATURE REVIEW

Human capital theory has usually been adopted as a quantitative approach to studying entrepreneurship, but this means that there is a lack of qualitative exploratory studies investigating the underlying phenomena and variables. In this study, a qualitative exploration is made of the phenomena that lie behind these human capital statistics. Young entrepreneurship has not been investigated from a human capital perspective before, and this literature review identifies the concepts from human capital theory which can most usefully be applied to the study of young entrepreneurs' venture creation activities. The review will adopt a relatively tight focus on literature that is specifically relevant to studying young entrepreneurs and their human capital, while offering appropriate historical, disciplinary and theoretical contexts. The sample of young entrepreneurs in this thesis have each grown significant businesses, which makes it somewhat different to the samples of the general entrepreneurial population in much other entrepreneurship research (Bygrave, 2007). Larger quantitative studies often include greater variation in performance, while studies of young entrepreneurs often include similar sized samples to this qualitative study but with lower performing entrepreneurs. The literature review will address the following areas of literature: defining entrepreneurship; disciplinary approaches to entrepreneurship (sociology, economics and psychology); human capital theory; social capital theory; and, young entrepreneurs.

### 2.1 What is Entrepreneurship?

The first reference to the term 'entrepreneur' by an English writer has been said to be in the work of J.S. Mill (Ricketts, 2006), but the French political economists, Cantillon and Say, are credited with first using the concept (Ruef and Lounsbury, 2007). For Weber, "Entrepreneurship means the taking over and organisation of some part of an economy, in which people's needs are satisfied through exchange, for the sake of making a profit and at one's own economic risk" (quoted in Swedberg, 2000: 26). Weber (2002) also presents an understanding of how commerce and entrepreneurship came to be valued in modern societies in *The Protestant Ethic and the Spirit of Capitalism*. For Weber, entrepreneurs were the main check and balance upon the power of bureaucrats in society (Swedberg, 2000).

As Casson et al (2006: 3) have suggested, "Popular notions of entrepreneurship are based on the heroic vision put forward by Joseph A Schumpeter (1934)", and developed during the twentieth century. The entrepreneur was regarded by Schumpeter as an innovator,

introducing new products and processes, in particular as a result of technological advance. This can lead to revolutionary, permanent changes to the economy and broader society. As capitalist societies develop, entrepreneurship was seen by Schumpeter as becoming increasingly conducted in large firms rather than by smaller firms and individuals (Schumpeter, 1942: 133). Schumpeter's approach to understanding the entrepreneur is considered more individualistic than Weber's, although both consider the impact that entrepreneurs have upon broader society. The increasingly positive approach towards entrepreneurship of many economists, policy makers, and in popular culture more broadly, can be partly linked to the economic crises of the 1970s in Britain and America where big businesses and bureaucratic forms were regarded by many as failing (Jones and Spicer, 2005).

The terms entrepreneur and entrepreneurship are not always used consistently either in entrepreneurship research or the broader business environment. Baum et al have pointed out, "There are hundreds of definitions of entrepreneur, entrepreneurship, and entrepreneurial" (2007: 6). As Chell et al (1991: 1) have described, "the problem of identification of an entrepreneur has been confounded by the fact that there is still no standard, universally accepted definition of entrepreneurs".

Currently, the study of entrepreneurship is often defined in relation to new business opportunities: "Entrepreneurship is an activity that involves the discovery, evaluation, and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials through organizing efforts that previously have not existed" (Shane, 2003: 4). Entrepreneurship is defined by Rae as, "the process of identifying and exploiting opportunities through bringing together resources to form ventures, which create or release value" (1999: 16). Gartner (1989) describes entrepreneurship as the "creation of organizations", in support of his approach to understanding entrepreneurship as a set of behaviours and processes, rather than an innate set of traits or characteristics with which the entrepreneur is born. This creation of organisations suggests that the entrepreneur employs people and is not simply self-employed. However, a broader definition of the entrepreneur has been identified by Katz and Green: "anyone who owns a business is an entrepreneur" (2007: 6). This definition implies the inclusion of those who work for themselves but do not employ anyone else (e.g. self-employed plumbers).

Carland et al (1984: 358) propose a distinction between an entrepreneur and a small business owner. They argue that, “an entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterized by innovative behavior and will employ strategic management practices in the business” (Carland et al, 1984: 358). In contrast, “A small business owner is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be a prime source of income and will consume the majority of one’s time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires” (Carland et al, 1984: 358). This thesis, in defining the participant young entrepreneurs as both generating a significant turnover and employing at least five staff, makes a distinction between being self-employed and an entrepreneur, similarly to Carland et al’s (1984) definition.

In this thesis, evidence will be drawn from both studies of self-employment and studies of larger entrepreneurial businesses. As Lewis and Massey (2003) pointed out in their literature review of young entrepreneurship, the majority of studies about this group of business founders are focused on self-employment rather than growth-oriented business founders. Similarly, Bygrave (2007) suggested that quantitative studies based on surveys about entrepreneurship, the most common research design for studies of human capital, are also commonly focused predominantly on self-employment. So, in order to identify a reasonable body of evidence to draw upon from the existing literature, many studies discussed below will be based mainly on self-employment.

## **2.2 Disciplinary Approaches to Entrepreneurship**

A number of disciplines have contributed to developing the field of entrepreneurship research, in particular sociology, psychology and economics (Shane, 2003). As Blackburn and Smallbone (2008) have pointed out, “the foundations of UK small business and entrepreneurship research have disparate roots, which span the social sciences” (2008: 279). For Shane, entrepreneurship is best understood from an interdisciplinary perspective: “The domains of psychology, sociology and economics all seem to provide insight into a piece of the puzzle, but none seem to explain the phenomenon completely” (2003: 10).

### 2.2.1 Sociology

There is a growing and varied sociological literature about entrepreneurship (e.g. Keister, 2005; Ruef and Lounsbury, 2007; Thornton, 1999), as well as a broader interdisciplinary entrepreneurship literature to which sociology significantly contributes. The sociology of entrepreneurship has developed more extensively in America as a distinct disciplinary approach, but the specialist entrepreneurship journals regularly publish articles from European authors considering sociological and interdisciplinary perspectives on entrepreneurship (see, for example, the special edition of *Entrepreneurship Theory and Practice* on alternative approaches to researching entrepreneurship, edited by Jennings et al (2005)). The extensive development of qualitative methodologies within sociology provides a sound basis for the identified need that entrepreneurship researchers, “get much closer to the actual workings of the small business” (Curran, 1986: 51). For Swedberg, sociological approaches to entrepreneurship are, “much closer to practical reality than the writing which can be found in mainstream economics” (2000: 24). Sociological research about entrepreneurship distinguishes itself from psychological and economics approaches by considering the socio-cultural context that entrepreneurs operate in (Ruef and Lounsbury, 2007), as well as providing the basis for a comparative perspective on entrepreneurship (Swedberg, 2000). The social and cultural influences upon entrepreneurship are broad and include education, socialization, public policy, popular culture, social networks and social capital, the entrepreneur’s demographics (age, ethnicity, gender etc.), and personal wealth and inheritance. Gray (1998) has argued that an ‘enterprise culture’ has emerged in Britain as a result of the influence of popular culture and public policy. Organisational sociology also helps the entrepreneurship researcher to understand how organizations are created and how they develop structurally over time (Ruef et al 2003).

The work of Weber is seen as particularly important by entrepreneurship sociologists in providing foundations for the research they do today (Swedberg, 2000; Ruef and Lounsbury, 2007). As Swedberg (2000: 25) argues, “Some of the most brilliant ideas on entrepreneurship within the social sciences can be traced back to the work of Max Weber”. Weber, in *Economy and Society* (1978), considered the idea of charismatic leadership, a concept used to mean, “a certain quality of an individual’s personality which is considered extraordinary and treated as endowed with supernatural, superhuman, or exceptional powers and qualities” (Morrison, 1995: 241). Morrison suggests from Weber’s perspective that,

“Such individuals can be prophets, persons with reputations, or heroes in war” (1995: 284). Swedberg (2000) suggests that while it is Weber’s work on charisma that often gets attention with regards to understanding entrepreneurs, Weber’s work on charisma should be seen as focusing particularly on pre-industrial times. Economic change and entrepreneurship in capitalist society is instead largely driven by the profit motive and rationalization. Swedberg contends that for Weber: “The general trend for rationalization in human society – especially the replacement of myth and religion by science and methodical, calculable thought – has limited the place for charisma in the modern world” (2000: 25).

Thornton (1999), in describing the sociology of entrepreneurship, distinguishes entrepreneurship research that focuses on the demand side (i.e. the economy’s requirements for those with entrepreneurial skills) and the supply side (assessing the individual characteristics and actions of entrepreneurs). This thesis focuses mainly on the supply side research about entrepreneurship (i.e. how young people develop the knowledge and skills needed to start and build businesses in practice).

Sociology offers important insights for this thesis about both young people as a category and the life course. Some research within youth studies also offers specific insights about young entrepreneurs, and these studies will be considered in greater detail below (e.g. MacDonald and Coffield, 1991; Rouse, 2004). This depth of understanding about young people is also very helpful to understanding how to research young entrepreneurs. It builds upon the existing contributions that sociology has made to understanding particular demographic groups of entrepreneurs. Entrepreneurship and ethnicity, for example, has received considerable attention from a sociological perspective (e.g. Aldrich and Waldinger, 1990). Aldrich and Kim’s (2007) study of entrepreneurship and the life course provides an understanding of how the family assists in the development of entrepreneurs. Human capital will be addressed in the ‘Economics’ section below, but it is worth noting that certain human capital studies of entrepreneurship have drawn upon the sociological expertise of their authors (for instance, Davidsson and Honig, 2003). Similarly, Gary Becker, the author who made one of the first major contributions to human capital theory (discussed below), was a Professor of Economics *and* Sociology at the University of Chicago, using a rational economics paradigm to consider sociological issues (Coleman, 1993). While human capital will be the major area of theory explored in this thesis, the role of social capital in developing an entrepreneur’s human capital will also be considered. Social capital theory in

entrepreneurship has strong sociological roots from a theoretical perspective (e.g. Granovetter, 1973; Coleman, 1988), as is discussed below.

### **2.2.2 Economics**

Entrepreneurship has been widely addressed by economists to varying degrees since the mid 1700s (e.g. Casson et al, 2006). In the mid-eighteenth century, Richard Cantillon (1755), writing in French, explicitly identified the entrepreneur as an economic actor whose role was to take risks, by hiring resources (e.g. land and labour) at agreed prices, in order to produce goods that would be sold to consumers at uncertain prices (Casson et al, 2006). Loasby suggests that the difference Cantillon identifies between entrepreneurs in their market knowledge and assessments of uncertainty, “may be traced back to differences in human capital” (2011: 250). However, classical economics, “did not incorporate a systematic treatment of entrepreneurship” (Ricketts, 2006: 38). Classical economists tended to conflate the role of the capitalist (providing financial resources) with that of the entrepreneur (innovating, risk taking and decision-making). Hence, “Adam Smith did not distinguish between the capitalist as the provider of the ‘stock’ of the enterprise and the entrepreneur as the ultimate decision maker” (Blaug, 2000: 77). Equally, “the term ‘entrepreneur’, or any of its English equivalents, is totally absent in the writings of David Ricardo” (Blaug, 2000: 77). Although JS Mill first used the term ‘entrepreneur’ in English in 1848, and did recognise that investing capital involved risk-taking, he saw that risk taking as part of the broader role of the capitalist, rather than a separate one (Ricketts, 2006; Blaug, 2000). So, early usage of the term ‘entrepreneur’ often did not conform precisely to today’s understanding of the role.

After 1870, neo-classical economists following ideas of Leon Walras, developed theory based on the assumption that markets tend towards perfect competition and equilibrium, with all economic actors having full access to information and behaving rationally. This means that, although entrepreneurs can receive profits when there is temporary disequilibrium, these profits will disappear when the other economic actors recognise that profits are being made and act in ways that restore equilibrium (Ricketts, 2006: 43). Similarly, Loasby has argued, “one could read a great many articles in major economic journals without encountering any substantive discussion of entrepreneurship. Since all outcomes are described as equilibrium results of the rational choices of optimizing agents, there is no need for this hypothesis. Firms, by contrast, frequently appear: in price they provide the supply side in goods markets



and the demand side in labour markets” (2011: 238). Alfred Marshall acknowledged that, “knowledge is our most powerful engine of production” (1920: 138), but it has been suggested that neo-classical economists have failed to develop this theoretical insight in considering the differentiation of knowledge between firms, not least between entrepreneurs (Loasby, 2011).

The American economist, Frank Knight (1921) developed the concept of the entrepreneur as risk-taker significantly further, distinguishing between predictable risks (which are recurrent and understood, and so can be insured against) and uncertainty (where risks are unique and hence cannot be measured, and can only be estimated subjectively based on intuition, tacit knowledge, etc.). Because uncertainty cannot be insured against, the business owner takes the risk as an entrepreneur and receives profit. In assessing these uncertain risks, different entrepreneurs will make different assessments based upon their different knowledge and experiences (what Loasby, 2011, has later interpreted as their different human capital assets).

Joseph Schumpeter, while regarded primarily as an economist, has made a significant contribution to understanding entrepreneurship from both an economics and sociological perspective (Swedberg, 2000; Goss, 2005). Schumpeter took a significantly different view of entrepreneurship to earlier economists, in that he argued the most important role of the entrepreneur was as an innovator. He contended that entrepreneurs do not simply contribute to the equilibrium of markets, but instead can bring about a ‘gale of creative destruction’ through their competitive behaviour (Schumpeter, 1942).

For Schumpeter (1934), the entrepreneur’s role was to develop new combinations of resources creating new products, new production methods and new markets. This did not necessarily require new inventions, but it did require the entrepreneur to reorganise production in some way. Schumpeter recognised that entrepreneurship was not simply about identifying opportunities, but that it required both effort and skill, and so a high degree of motivation. Hence entrepreneurial economic change emerges from the intellect, knowledge and skills of the entrepreneur. Schumpeter identified that when entrepreneurs constructed new combinations of resources, it was “not only change which arises within the economic system, but also change which originates in the brain of the entrepreneur” (Loasby, 2011: 253). Bygrave sees Schumpeter’s entrepreneurs as “outliers” (2007: 22), not typical small business owners. The existing research on young entrepreneurs (e.g. Rosa, 2003; McLarty,

2005), as will be seen below, has generally focused on businesses that have not generated significant revenue nor been significant innovators in their markets. By contrast, the young entrepreneurs who have taken part in the research for this thesis could be considered Schumpeterian entrepreneurs (although often at a relatively early stage in their development), due to the greater impact they have had on their markets.

The Austrian School (e.g. the work of Hayek and Kirzner) saw markets as dynamic and the product of information flows and active bargaining by participants, rather than the passive price-takers of neo-classical theory (Ricketts, 2006: 43-44). Where there are market failures (e.g. some actors lack information, technology, etc.), there is an opportunity for entrepreneurs to make profits using superior skills and knowledge, for example by taking over less efficient competitors. Kirzner (1973) sees the entrepreneur as needing to be constantly alert to new market opportunities, and by reacting to them, making markets more efficient and move towards (at least temporary) equilibrium. Entrepreneurs are acquirers and processors of market information, using information to make profits. Hence, for Kirzner, entrepreneurial activity is based upon the possession of highly specific knowledge (i.e. human capital) about particular markets, with different entrepreneurs having different stocks of knowledge. Richardson (1960) points out a limitation in Kirzner's approach, in that while some entrepreneurial opportunities exist and the key role of the entrepreneur is to identify them (e.g. pricing differences), others require much more complex entrepreneurial activity (e.g. developing a new production system). Baumol distinguishes the role of the entrepreneur in the work of Schumpeter compared to the work of Kirzner: "The job of Schumpeter's entrepreneur is to destroy all equilibria, while Kirzner's works to restore them" (2005: 3). While Knight, Schumpeter and Kirzner have all recognised to varying degrees the differentiation in the knowledge and skills of entrepreneurs, none explicitly used the term human capital, this term being widely introduced into the study of economics by Becker (1964) (Loasby, 2011).

This study applies human capital theory to researching young entrepreneurs. Here, the origins of the theory and its application to entrepreneurship will be considered, before a more detailed assessment of empirical literature on human capital theory and entrepreneurship is offered later in the chapter. The first economist to use the term human capital may have been Pigou (1928). The term human capital, when adopted by the economist Gary Becker in the 1960s, was thought by some to equate human beings with machines (Becker 1993). As

Becker describes, “In human capital theory, people rationally evaluate the benefits and costs of activities such as education, training, expenditures on health, migration, and the formation of habits that radically transform the way they are” (Becker, 1964: 402). Hence for him it was a broad theory explaining individuals’ decisions to invest in themselves as economic actors to gain increased economic and other benefits. The idea that individuals invest in human capital also received significant support from Mincer’s (1974) study *Schooling, Experience, and Earnings*.

While human capital theory has been especially important in the study of education, training and earnings research, it has also been applied to other fields, including economic growth theory, development economics, trade theory and the theory of the firm (Blair, 2011). Human capital theory has enabled economists to consider the internal workings of organisations in the theory of the firm, as opposed to the ‘black box’ view of the firm adopted by many neo-classical economists (Blair, 2011). Developing the theory of the firm to consider firms’ internal workings not only enables the researcher to consider labour, education and training as differential assets between firms, but also to consider the differential entrepreneurial assets between firms. However, Cooper et al (1994) suggest that, “Despite the growing body of empirical studies that address venture performance, there is not a clear picture of how initial resources are related to subsequent performance” (1994: 373). Cooper et al (1994), Bates (1995), Gimeno et al (1997) and subsequent empirical studies of human capital and entrepreneurship have tried to identify the relative importance of various human capital assets of the entrepreneur to business performance. Davidsson and Honig, considering the link between entrepreneurs’ human capital and their performance state, “Human capital theory maintains that knowledge provides individuals with increases in their cognitive abilities, leading to more productive and efficient potential activity...therefore, if profitable opportunities for new economic activity exist, those with more or higher quality human capital should be better at perceiving them. Once engaged in the entrepreneurial process, such individuals should also have superior ability in successfully exploiting opportunities” (2003: 305).

According to Becker (1975, 1993), human capital involves personal attributes possessed by the economic actor, as well as personal experience and habits, which may have positive or negative effects on the business. There are a variety of elements which form the stock of human capital considered important to entrepreneurs, which were not all included in Becker’s

original conceptualisation of human capital. Human capital theory has been used to understand how the relevant contributions of formal education, family background, work experience, informal education, general work experience, management experience and previous entrepreneurial experience, interact with various personal characteristics, in particular cognitive characteristics, self-efficacy and motivation, when an entrepreneur starts a business (Davidsson and Honig, 2003; Ucbasaran et al, 2008; Shepherd and De Tienne, 2005). Less tangible aspects of human capital have been incorporated by certain authors. For example Jones et al (2010) identify the important role that the ability to undertake critical reflection and that social skills play, in addition to management, formal education and technical skills, in an entrepreneur's human capital. In the economics literature human capital has tended to be seen primarily in terms of education and training (e.g. Becker, 1993; Stiles and Kulvisaechana, 2011), but as the list above shows, in the study of entrepreneurship it has been interpreted more broadly reflecting the wide variety of qualities and experience which entrepreneurs may need to draw on to build their businesses. Blair describes human capital, "as the most important factor of production and the most important source of economic wealth and the engine of economic growth over time" (2011: 49). As an exploratory piece of research, this study is concerned both to evaluate the significance of established human capital factors for entrepreneurs in the sample, but also to identify any extensions to those existing human capital factors, or any wholly new factors, which may be particularly important to young entrepreneurs' human capital and business performance.

There have been a limited number of studies investigating young entrepreneurship from an economics perspective, which will be considered in more detail in the 'Young entrepreneurship' section of the literature review. For example, Blanchflower and Oswald (2009) have investigated the contribution that young entrepreneurship can make to the economies of various European countries. Kourilsky and Walstad (2007) have researched young entrepreneurship in America from a broadly economics-based perspective, particularly the attitudes of young people and business owners.

### **2.2.3 Psychology**

Psychological approaches to studying entrepreneurship traditionally have focused on trying to identify the particular innate traits and characteristics of entrepreneurs (e.g. McClelland's (1961) focus on the need for achievement of entrepreneurs), but such approaches have

become somewhat discredited (see Gartner, 1989). An example, among many, of a set of key entrepreneurial traits that might make up the suggested entrepreneurial personality are, “Flexible focus; structuring resources; temporal agility; influencing others; behavioural flexibility” (Bird and Jelinek, 1988). Shane argues that, “Psychological characteristics influence the likelihood that people will exploit opportunities because these characteristics lead people to make different decisions about opportunities than other people with the same information and skills. It is important to note that psychological characteristics are not sufficient conditions and so do not cause people to exploit entrepreneurial opportunities. Rather, they influence the exploitation decision” (2003: 96). Swedberg (2000) points out there is no overall agreement between psychological researchers about which traits make up the ‘entrepreneurial personality’. Kirby, reviewing the psychological literature about entrepreneurs argues that, “The main psychological characteristics of the entrepreneur would appear to be risk-taking ability, need for achievement, locus of control, desire for autonomy, deviancy, creativity and opportunism, and intuition” (2003:111). Baum et al consider that the ‘Big Five’ set of characteristics as set out by Kirby, traditionally argued by some psychologists to make up the entrepreneurial personality, “are distal and aggregated constructs, and they may predict aggregated classes of behaviour but not specific behaviours” (2007: 48).

Nevertheless psychology still has an important role in enabling researchers to understand entrepreneurship and has produced more research about the activity than either economics or sociology (Swedberg, 2000). Today understanding how people develop entrepreneurial behaviours is believed to be more useful than searching for traits that make up the entrepreneurial personality (Baum et al, 2007). Of course, it may be that while many people are capable of developing entrepreneurial skills and behaviours, some people do have specific characteristics that enhance their potential as entrepreneurs, but it has not been possible to reach a clear conclusion about what precisely the characteristics are and how environmental influences impact upon them. As Baum et al have described, “According to venture financiers, entrepreneurs’ personal characteristics (individual differences) are the most important factors for business success - even more important than the business idea or industry setting” (2007:1). Hence there are very practical reasons for researching the ways in which personality, behaviours and skills impact on an individual’s ability to become a successful entrepreneur.

Studies are now being conducted which attempt to understand entrepreneurs' personal characteristics from a more sophisticated perspective, acknowledging that environmental influences exist and that there is not one predominant entrepreneurial personality. Routamaa and Miettinen suggest that, "In spite of the fact that anyone can start-up a company, certain personal characteristics and behaviour patterns may benefit running an enterprise. Entrepreneurs as individuals differ from other people, i.e. entrepreneurs' personality structure is supposed to differ from the average, at least statistically" (2007: 2). While they believe that different industries may benefit different entrepreneurial personalities they say that general characteristics of spontaneity, curiosity, adaptability and a willingness to consider change are often important. They use their analysis of what constitutes entrepreneurial personalities to propose appropriately targeted education and training programmes.

There is an increasing belief amongst entrepreneurship researchers that entrepreneurial skills may be learned (Gibb, 2005). This has led, for example, to Gartner's (1989) behavioural approach to understanding entrepreneurship, although he regards this as more an interdisciplinary approach than a strictly psychological one. Gartner (1989) argues that entrepreneurship should be seen as a set of processes that the entrepreneur carries out, rather than being an innate set of characteristics which a select group of people have and others do not. It is this belief that entrepreneurship is a set of behaviours that can be learned that has opened up the potential for developing entrepreneurship education programmes and theories of entrepreneurial learning (Gibb, 2002; Cope, 2005). Sarasvathy (2008) argues that expert entrepreneurs who have built significant businesses develop their expertise over time rather than their performance being based simply on a set of innate characteristics. This study, and the human capital approach to understanding entrepreneurship, is based on the principle that relevant knowledge and skills can be accumulated and developed over time, in common with Gartner (1989), rather than that entrepreneurship is based on static psychological traits.

### **2.3 Human Capital Theory**

Human capital theory has particular advantages for the study of entrepreneurs' growth and development when compared to traits and personality based approaches because human capital can develop and change over time, whereas personality and traits tend to be seen as more fixed. As Ucbasaran et al point out, "at every stage of the entrepreneurial process, the entrepreneur is accumulating knowledge and experience, which feeds back into his or her

initial endowment of human capital” (2006:19). The value of human capital in predicting entrepreneurial performance has been addressed by Cooper et al, who argue that, “If a framework can be developed to predict new venture performance before major financial and other investments have been made, it can lead to substantial benefits for entrepreneurs, those who supply resources to them, and for researchers. It may permit identification of ‘high risk’ or ‘high potential’ businesses at an early stage” (1994: 372).

It is possible to define both general and specific elements that contribute to human capital (Becker, 1993). According to Cooper et al (1994) “General human capital is generic to all forms of economic activity and includes aspects of individual human capital such as education, age, gender, and management and technical know-how. General human capital may provide access to general networks and may increase the problem-solving ability of the entrepreneur”. Ucbasaran et al (2006) present a fuller classification of types of human capital than other authors, partly reflecting the size of their study, and reflecting its chronology as one of the latest, most fulsome studies of the human capital studies of entrepreneurship, building on earlier studies such as Cooper et al (1994) and Gimeno et al (1997). Ucbasaran et al see entrepreneurship-specific human capital as that human capital which “has most applicability in the domain of entrepreneurship” (2006: 20). Entrepreneurship-specific human capital has three components: entrepreneurial capability, by which they mean, in particular, the ability to recognise business opportunities and to exploit them; parental background, which they argue allows young people to observe their parents behaving entrepreneurially, and to understand the nature of life as an entrepreneur, making them more likely to become entrepreneurs themselves; and attitudes, which they see as being particularly significant in the opportunity identification process (e.g. in searching for or being alert to new opportunities). Ucbasaran et al also identify venture-specific human capital, by which they mean, “an entrepreneur’s knowledge of the venture domain relating to customers, suppliers, products, and services” (2006: 29).

The distinction between entrepreneurship-specific and venture-specific human capital does usefully draw attention to the possibility that entrepreneurs may gain knowledge and experience that is closely related to particular markets (i.e. venture-specific human capital), or alternatively gain knowledge and experience related to starting a new business, which need not be in the same sector as that start-up (i.e. entrepreneurship-specific human capital). However, some knowledge and skills developed by an entrepreneur may be difficult to

classify, because they could fall into more than one of the three categories (i.e. general human capital, entrepreneurship-specific human capital, and/or venture-specific human capital). While Ucbasaran et al (2006) do identify further types of human capital, it can be very difficult to distinguish between them, hence this study will use these three types of human capital, in common with Bosma et al (2004).

It is useful to identify some critiques of the existing human capital literature. The human capital literature within entrepreneurship has generally not been highly self-critical. Instead it has undergone iterative development, gradually extending the range of variables included in studies and the way that they are measured. For example, Gimeno et al (1997) started to consider the quality of work and managerial experience as well as the quantity of work experience. Ucbasaran et al (2006) draw upon the previous studies of human capital theory in developing a particularly thorough account of how the human capital of experienced entrepreneurs compares to those starting a business for the first time.

Stiles and Kulvisaechana (2011) identify critiques of the human capital literature on training and performance, which can partially be applied to the human capital of entrepreneurship literature. Quantitative studies usually do not illuminate the direction of causation. So, for example, does having a higher level of education improve an entrepreneur's performance, or is an entrepreneur of higher ability and aptitude simply more likely to undertake more education. By contrast, a qualitative study can investigate the direction of causation, particularly from perspective of subjects taking part. Quantitative studies also sometimes investigate limited and differing aspects of a human capital factor. For example, some studies distinguish the level at which managerial experience is gained (e.g. supervisory, middle management or senior management) to assess its benefits to an entrepreneur starting a business, while other studies do not. A qualitative study can easily examine more aspects of a variable such as an entrepreneur's work experience prior to start-up, to assess which are most important and relevant. Some of the human capital quantitative studies suffer from using proxy measures for the variables they might really wish to investigate, since the large data-set used was collected for another purpose, and has then been applied to the study of entrepreneurship at a later time. For example, Bygrave (2007) points out that some quantitative studies use data-sets which do not enable the researcher to distinguish between entrepreneurs and the self-employed.



This review considers the following human capital factors: family background; education; general work experience; managerial work experience; specific human capital (i.e. entrepreneurial experience or experience in the same or related sector of a new start-up). In addition the literature is reviewed which considers how human capital factors influence opportunity recognition and business performance.

### **2.3.1 Family Background**

A number of issues have been investigated regarding the role of family in the development of entrepreneurs, although the issue most commonly considered has been whether self-employed parents are more likely to have self-employed children than parents in other occupations. Human capital literature has also considered whether having an entrepreneurial parent affects their offspring's entrepreneurial performance. Whereas human capital studies have tended to identify a limited number of measures of the link between an entrepreneur and their family background (e.g. Cooper et al, 1994; Davidsson and Honig, 2003), more in-depth sociological studies of family and entrepreneurship have considered a number of different ways in which family background might influence the development of entrepreneurs (e.g. Aldrich and Kim, 2007; Kirkwood, 2007; Macdonald and Coffield, 1991). Jones and Jaywarnna (2011) argue that understanding human capital development from childhood is important to understanding the development of entrepreneurs and the decision to become an entrepreneur, but they also point out that such early human capital development has not been widely researched and so is not well understood. A key area these studies have not considered is whether an entrepreneurial parent is more likely to influence their child to become an entrepreneur than a parent who is simply self-employed. Quantitative data-sets often do not collect data that distinguish between whether parents of an entrepreneur are self-employed or entrepreneurs. They also do not explain the reason(s) why the child of an entrepreneur is more likely to become an entrepreneur themselves, but only find a correlation. The human capital literature also does not consider whether any non-parental family members may be encouraging young people to become entrepreneurs. By contrast, Becker (1981) suggests that wider a range of family members, not only parents, have a role in human capital development.

The sociological perspective has led to more in-depth insights into entrepreneurship and the family, although not addressing the topic explicitly from a human capital perspective. In

developing their framework of the socialisation of entrepreneurs, Aldrich and Kim (2007) drew upon four disciplines: sociology, psychology, economics and behavioural genetics. They used Panel Study of Entrepreneurial Dynamics data and existing literature to analyse the reasons why self-employed parents are more likely to have self-employed children, finding that parental influence changes during the life course, with “strong effects from genetic inheritances and parenting practice (during childhood); moderate effects from reinforcement of work values and vocational interests (during adolescence); and little influence from financial support but stronger effects from other tangible means of support (during adulthood)” (Aldrich and Kim, 2007: 33). While Aldrich and Kim (2007) make few explicit references to human capital development in their study, they do point out that adolescents and children do not necessarily make their own decisions about human capital development, but that the skills and knowledge they acquire can be heavily influenced by adults, in particular their parents. Thus the basis of human capital development as the result of rational investment behaviour of the individual affected might not be wholly accurate. They also note that there are often intervening factors, such as work experience, influencing an entrepreneur between the period of greatest family impact (during childhood and adolescence), and an entrepreneur later starting their business (which happens on average at 26 in Aldrich and Kim’s (2007) study). The impact of the family has fewer potential mediating factors in the case of many of the participants of this thesis, given the younger average age at which their businesses were started.

The role of parenting in socialising young people can be influential in a number of ways with regards to entrepreneurship. Studies have regularly found that having a parent who is an entrepreneur increases a young person’s likelihood of becoming an entrepreneur (Kirkwood, 2007). In McLarty’s (2005) study of graduate entrepreneurs considered in the ‘Young Entrepreneurs’ section below, 85% of participants had some family background in self-employment. He found much family encouragement and support for the young entrepreneurs in starting their business, but there was little evidence of direct financial support, in common with this study.

Blanchflower and Oswald have found, using a large quantitative data-set that, “an important determinant of being self-employed is having a self-employed parent... It is unclear whether this is done by inheriting the business, or working in the family firm or actually setting up a new business entirely” (2007: 6). A further reservation about quantitative studies of parental

influence on the child's decision to become an entrepreneur is raised here, since they often do not distinguish whether an entrepreneur has set up an independent business or taken over the running of the family firm. In this thesis, all the young entrepreneurs have set up their own independent business, regardless of whether they had an entrepreneurial parent or not.

Gray considers the role of parental influence on the decision to become an entrepreneur, concluding that, "the role of parental or cultural influence is felt most at the point of initial career choice but perhaps less so as personal experience accumulates" (1998: 107). This seems to suggest that young people are more likely to have been influenced in their decision to become an entrepreneur by their parents than those who made the decision to set up a business later on in life. The occupation of a young person's parent is seen as an important factor in the likelihood that they become an entrepreneur. However, the detail of how the socialisation process impacts on the decision as to whether or not to become an entrepreneur and how an entrepreneur behaves in practice, has not been given significant empirical research focus (Kirkwood, 2007). The young entrepreneurs in this thesis have fewer other influencing factors between socialisation in the family while growing up, and starting up their business. Conversely, a thirty five year old, for example, has significantly more work experience and other life experience, which may lessen the impact of earlier influences such as family and education.

With the increasing interest in gender and entrepreneurship, the socialisation process has been investigated by Kirkwood to consider, the "differences between the influence of mothers and fathers, and also between the experiences of the women and men participants" (2007: 40). Kirkwood found that women entrepreneurs were more likely than men to have regarded their parents as an inspiration and useful advisors to their entrepreneurial career. Contrastingly, male entrepreneurs sometimes wished to seek independence from their family or even wished to compete with their parents (in particular their fathers).

Curran and Burrows (1988) found that coming from a family of a higher social class increases the likelihood of becoming an entrepreneur. By contrast, Jones and Jayawarna using data from the National Child Development Study, "suggest that children from high SES [socio-economic status] backgrounds have a lower probability to convert their cognitive ability into a career in entrepreneurship" (2011: 8), but conclude that the impact of socio-economic background on the potential to become an entrepreneur is "ambiguous" (Jones and

Jayawarna, 2011: 14). Thus there does not appear to be strong evidence available in the UK on whether children from higher socio-economic backgrounds are more likely to create substantial businesses than those from lower socio-economic backgrounds. Dunn and Holtz-Eakin (2000: 298) found that, “a \$10,000 increase in parents’ total assets raises the probability of a son’s transition into self-employment” but only marginally. By contrast, they found that, compared to total parental assets, whether or not a parent was self-employed was a much more accurate predictor of their children becoming self-employed. As Aldrich and Kim (2007) point out, there is little evidence that parents generally provide start-up capital to their children, even when they are of higher socio-economic status.

A qualitative approach to understanding the family background of young entrepreneurs in this study is able to identify and explore in greater depth than the quantitative human capital studies the precise advantages that may transfer from an entrepreneurial parent to their offspring. It is also able to distinguish between the advantages of having an entrepreneurial parent compared to simply having a self-employed parent. Human capital studies have not considered the impact that having a parent from a non-entrepreneurial background may have (e.g. can a parent from certain higher socio-economic occupations provide technical skills and advice to a child who decides to set up a business?). A qualitative approach to studying family background also can investigate why having an entrepreneurial parent may lead their child to become an entrepreneur (i.e. what is the nature of the parental influence).

### **2.3.2 Education**

Education is usually seen as a key part of human capital theory (e.g, Mincer 1974; Becker, 1975). Human capital theory suggests that education adds to the entrepreneur’s stock of general human capital providing formal knowledge, key skills (e.g. numeracy) and problem-solving abilities, as well as key attributes such as self-confidence, self-discipline and motivation (Cooper et al, 1994). Furthermore, economic studies have shown that higher education levels are associated with higher levels of earnings (Becker, 1993).

Human capital theory has often been seen as advocating education and training as a largely beneficial investment. For example, Becker has argued that, “training may change a lifestyle from one with perennial unemployment to one with stable and good earnings” (1993: 392). Evans and Leighton (1989) have found that as the number of years of education increase for men, the likelihood of entering self-employment increases. Studies of human capital have

found that higher levels of education are associated with higher levels of business growth. For instance, Cooper et al's (1994) longitudinal study of 1053 new ventures, found that higher levels of education of business owners increased the likelihood of both higher growth and firm survival. Gimeno et al reported that "entrepreneurs with higher education... have significantly higher performance than those with medium levels of education (high school graduates or some college)" (1997: 771). They stress, however, that while higher levels of formal education can be a valuable addition to human capital, increasing the chances of higher performance, some entrepreneurs without even a high school diploma can achieve high levels of performance. Davidsson and Honig (2003) found that while higher levels of education increased the likelihood of participants in their study taking part in a range of nascent entrepreneurial activities, it "did not appear to be a factor in determining success in the exploitation process, neither in terms of the frequency of gestation activities over time nor in predicting those who succeeded with a first sale or a profitable venture" (2003: 302). Ucbasaran et al's study comparing novice entrepreneurs (those without previous entrepreneurial experience) and habitual entrepreneurs (those with experience of owning multiple businesses), found that "a statistically significant difference was not detected between novice and habitual entrepreneurs with regard to their highest level of education" (2006: 76).

Human capital not only influences the entrepreneur's self-perception but may also influence the perceptions of other actors, such as potential investors and customers, important to the success of the business. Formal education confers not only credentials, but social status and even business credibility. Ucbasaran et al argue that education can create an impression of "innate productivity" (2008: 155) personal qualities such as intelligence, motivation and self-discipline. However, it should not be assumed that greater human capital automatically advantages the entrepreneur. Social systems may encourage entrepreneurs to over invest in their human capital (Davidsson and Honig, 2003), meaning that an entrepreneur's further investment in education may not benefit their entrepreneurial performance even where there is societal pressure to invest (e.g. the decision as to whether to do a first degree or do an MBA). In addition the relationship between an entrepreneur's human capital and their performance is not necessarily straightforward. For example, Gimeno et al (1997) found that more education enhances performance but may have disadvantages for perseverance. Data collected by Kourilsky and Walstad (2007) found that the majority of American high school

students interviewed believed that education (school and university) would provide most preparation for starting their own business compared to any other human capital factor, whereas business owners themselves perceived practical business experience as more valuable preparation for starting a business.

Research comparing 8422 graduate and non-graduate entrepreneurs has demonstrated that graduate entrepreneurs are more likely than non-graduate entrepreneurs to develop an export market, participate in knowledge intensive markets, and receive external assistance from public and private advisory services, as well as family and friends (Pickernell et al, 2011). The researchers suggest that, “Qualitative investigation is, for example, required to explore the reasons behind these statistics” (Pickernell et al, 2011). Graduates with work experience may bring benefits to starting their business, either from having a degree and/or from having higher quality work experience than non-graduates. This thesis investigates some of the ways in which education contributes to an entrepreneur’s human capital, including considering differences between graduates and non-graduates in the sample.

Quantitative human capital studies have addressed the relationship between having higher levels of education, the decision to become an entrepreneur and entrepreneurial performance. However, these studies have not demonstrated a consistent relationship between educational investments and entrepreneurial performance, or explained satisfactorily how education and entrepreneurship are related. The qualitative data collection methods in this thesis enable the researcher to consider the subjective opinions of young entrepreneurs about which aspects of their education, if any, they thought had made the greatest contribution to their entrepreneurial career. Quantitative studies have only tended to assess a limited number of measures of educational achievement, which may or may not adequately reflect the aspects of education which entrepreneurs find most beneficial.

### **2.3.3 General Work Experience**

Much of the focus in the literature on entrepreneurs’ human capital has been on their managerial human capital (e.g. Cooper et al, 1994). In this study, however, it is unlikely that the young entrepreneurs would have significant managerial experience, given the age at which they start their first businesses. So first of all an outline will be provided about what is known about entrepreneurs’ broader work experience from previous research of the entrepreneur population, before a section more specifically about what is known about the

managerial experience of older entrepreneurs when they start their businesses. Gimeno et al (1997) analysed the number of full-time jobs of any sort that participants had had separately to managerial experience. They found that, “entrepreneurs with two prior jobs performed better than those with no previous work experience... and entrepreneurs with three or four jobs perform better than those with five or more prior jobs” (Gimeno et al, 1997: 72). They concluded that, “a low number of prior jobs may be associated with a lack of outside alternatives, while a high number of jobs may suggest an inability to perform jobs satisfactorily” (Gimeno et al, 1997: 772), both reflecting a lack of general human capital. Davidsson and Honig (2003) analysed the number of years of work experience participants had prior to start-up, but found there was not a significant relationship between number of years worked and whether an entrepreneur achieved a first sale or profitability. Neither study specifically studied the quality of non-managerial work experience developed by entrepreneurs, whereas this thesis compares the benefits of graduate and non-graduate work experience between participants.

Shepherd and De Tienne (2005: 93) see prior knowledge as “the individual’s distinctive information about a particular subject matter”. Ucbasaran et al (2008) are more precise, distinguishing prior knowledge, which is an aspect of human capital acquired before a business is started, from current knowledge, which is acquired by experience after start-up. Entrepreneurs need three types of knowledge: knowledge of the market; knowledge of ways to serve the market; and knowledge of customers’ problems (Shane, 2000). Fiet (2002) argues more broadly that specific knowledge available to the entrepreneur, but not in the public domain, is likely to be more valuable, and that the more specific that knowledge is, the more important it will be to his/her innovativeness.

Prior knowledge can be gained vicariously (i.e. learning from watching experienced managers at work), or directly from one’s own experience. Whilst formal education is well suited to passing on codified, explicit knowledge (“know what” as described by Davidsson and Honig, 2003: 306), it is widely recognised as being less suited to passing on uncoded, experiential, tacit knowledge (“know how”, Davidsson and Honig, 2003: 306), which is specific to individuals and difficult to communicate (Nonaka and Takeuchi, 1995). While experience does not automatically lead to learning, and the gaining of useful tacit knowledge for the entrepreneur, it can have a significant role in developing technical skills necessary to

grow a business (Ucbasaran et al, 2008) and is significant in developing the entrepreneur's expertise in strategic decision making (Wiklund and Shepherd, 2003).

Human capital is widely recognised as making an important contribution to how entrepreneurs think, their "cognitive characteristics" (Ucbasaran et al, 2008:155). Prior knowledge is seen as allowing the entrepreneur to be a more efficient decision maker, identifying and focusing on fewer, more relevant, variables, possessing a greater understanding of them, and so be able to take better, quicker and more intuitive decisions (Shepherd and De Tienne, 2005; Ucbasaran et al, 2008). Davidsson and Honig (2003) see prior knowledge both as a foundation for assimilating new knowledge and responding to market opportunities. "Previous knowledge plays a critical role in intellectual performance. It assists integration and accumulation of new knowledge, as well as integrating and adapting to new situations" (2003: 306). Shepherd and De Tienne see those with greater knowledge as capable of a more thorough understanding of the complex issues entrepreneurs often face, because "knowledgeable individuals have created categories of information based on a deep structure that involves more, stronger and richer links between concepts" (2005: 94). Human capital not only provides the entrepreneur with more knowledge, it enhances his/her capacity to process it. Busenitz and Barney (1997) point out that entrepreneurs tend to think differently to managers in large companies, relying more on heuristics (mental short cuts) in their decision making. However, Shepherd and De Tienne (2005) argue that prior knowledge can lead entrepreneurs to focus on familiar options and actions, so that they consider a too narrow range of options, falling into "mental ruts" (Shepherd and De Tienne, 2005:104). Hence entrepreneurs may use heuristics that lead to sub-optimal decisions. So there can be a "dark side to human capital" (Ucbasaran et al, 2008: 155).

Human capital studies measure work experience quantitatively in a variety of ways (e.g. number of jobs, number of years work experience), but less frequently measure the quality of work experience, although Gimeno et al (1997) regard this as important. The quantitative studies give mixed results, so Gimeno et al (1997) found number of jobs did affect the entrepreneur's performance, but Davidsson and Honig (2003) could not find a link between years of work experience and the performance of an entrepreneur's new business. In studying young entrepreneurs, general work experience is of particular importance, since they are less likely to have highly developed technical knowledge and skills in the sector they wish to establish their business in as well as managerial work experience. A qualitative study



enables the researcher to investigate both the quality and quantity of the young entrepreneurs' work experience, but also how they may compensate for the greater work experience of older entrepreneurs when starting a business.

#### **2.3.4 Managerial Work Experience**

Managerial human capital is partly innate, but is also developed by participating in, observing and studying business decision-making at work, so building the entrepreneur's managerial skills and knowledge (Cooper et al, 1994; Ucbasaran et al, 2006). Gimeno et al (1997) argue that the development of such management skills and knowledge is not only about the amount of time an entrepreneur has spent in managerial positions, but is also significantly influenced by the quality of that experience (e.g. at what level in the firm's hierarchy it was obtained).

In practice evidence of the impact of managerial experience upon entrepreneurial and business performance is somewhat mixed. Cooper et al, sampling 1053 US entrepreneurs for their previous employment experience and their level of managerial experience, found that neither contributed to the survival or growth of the business. They suggested that, "management know-how acquired in an industry may not be generally transferable to other industries" (1994: 390). Ucbasaran et al (2006), however, compared the experiences of novice and more experienced entrepreneurs, in the light of their employment status immediately prior to start-up (managerial, supervisory, self-employed, or no supervisory experience), and the total number of jobs held prior to start-up. They found that novice entrepreneurs tended to have both significantly less managerial/supervisory/self-employment experience, and to have had fewer jobs than habitual entrepreneurs. They also found that, when asked to assess their managerial capability, habitual entrepreneurs reported significantly higher self-assessments than novice entrepreneurs. However, they did not find clear evidence that habitual entrepreneurs outperformed novice entrepreneurs, measured for example by profit relative to competitors and changes in sales. Given that the young entrepreneurs in this study do not have many years of general work experience, they are unlikely to have been senior enough to have managerial work experience when starting their first main ventures. This means it is important to find out how this lack of experience has affected their abilities to build their businesses and to manage people, particularly given that all the young entrepreneurs have in fact employed at least five members of staff.

Cooper et al (1994) point out that the managerial human capital available to a business can include the knowledge and experience of both business partners and professional advisers. While they found that the use of advisers contributed only to a small extent to business survival, they found that the number of business partners contributed significantly to growth. They suggest that, “Benefits associated with the presence of partners include capital, functional expertise, and a broader range of management experience. There may also be benefits from the psychological support they can provide each other, and, from the lessened reliance upon a single entrepreneur’s drive and judgement” (Cooper et al, 1994: 390). This study will consider how working with a business partner and using advisors impacts on the human capital available to the young entrepreneurs’ businesses.

### **2.3.5 Venture-Specific and Entrepreneurship-Specific Human Capital**

Gimeno et al explain “Specific human capital results from education, training or experience that has a limited scope for applicability. Investments in specific human capital create value in a particular business context but do not have relevance in alternative occupations”, adding that “a measure of specific human capital is an entrepreneur’s knowledge” (1997: 757). For example, a person could have a knowledge of online marketing methods such as social media and search engine display advertising that could be helpful for working in many different sectors (i.e. general human capital). The same person could also have a specific knowledge of marketing to customers in a particular sector (e.g. computer gaming), and so his experience would be particularly valuable in starting a business in the computer gaming sector (i.e. venture-specific human capital).

Venture-specific human capital is that directly relevant to the entrepreneur’s business sector, and includes experience of the sector in which the business is located and the similarity between the entrepreneur’s new business and their previous work experience. Cooper et al (1994) using the concept, industry-specific know-how, found it was a significant determinant of both business survival and growth. They suggested that, “The experience and contacts developed in a similar business may lessen the liability of newness of a new venture, leading to less [trial and error] as the business gets started” (Cooper et al, 1994: 390). Following Gimeno et al (1997), Ucbasaran et al (2006) see venture-specific human capital in terms of precise knowledge about customers, suppliers, products and services directly relevant to the sector in which the entrepreneur’s venture is operating, which loses its value outside that

particular context. Such knowledge enables entrepreneurs to draw from existing contacts and networks.

Ucbasaran et al (2006) go further, distinguishing between the entrepreneur's entrepreneurship-specific human capital and his/her venture-specific human capital. This they define as including the entrepreneurial capability, parental business ownership (discussed above) and business ownership experience. Entrepreneurial capability is particularly focused on the ability to recognise opportunities and devise strategies to follow them up. Here they found no difference reported by novice and habitual entrepreneurs. Ucbasaran et al (2006) investigated differences in the ways in which novice and habitual entrepreneurs exploited opportunities by measuring the tendency to purchase rather than create ventures, but found no significant differences. They then analysed the influence of business ownership experience upon the reported performance of the business and the entrepreneur, but found that neither of their hypotheses suggesting that habitual entrepreneurs would report superior business and entrepreneur performance was supported. They also point to a number of other studies (e.g. Chandler and Jansen, 1992, Westhead and Wright, 1999), "which have failed to detect a difference between novice and habitual entrepreneurs with regard to the performance of the surveyed or latest business owned" (Ucbasaran et al, 2006: 44).

The human capital literature has stressed the importance of specific human capital (e.g. Cooper et al, 1994; Ucbasaran et al, 2006). However, although some studies do correlate having specific human capital positively with improved entrepreneurial performance, the evidence is not wholly consistent (e.g. see Rauch and Rijdsdijk, 2011). The young entrepreneurs in this study may or may not have had previous work experience in the sector they are starting their business in, but given their age are unlikely to have had considerable previous experience of this type. Given this is a study of young entrepreneurs starting their first main venture, they do not have previous conventional business ownership experience (i.e. they do not have entrepreneurship-specific human capital in the form usually defined). However, alternative more informal entrepreneurial experience that young people may have developed will be investigated in this study.

### **2.3.6 Opportunity Identification**

Entrepreneurship research tends to focus on emergence, that is how a business is created. This can be seen as falling into two parts: the discovery of a business opportunity and its exploitation (Shane and Venkataraman, 2000). Gaglio and Katz (2001: 91) suggest that “understanding the opportunity identification process represents one of the core intellectual questions for the domain of entrepreneurship”. The process of uncovering a new business opportunity and selecting it as one to be followed through to start-up is referred to in several ways, for example as discovery (Shane and Venkataraman, 2000; Davidsson and Honig, 2003), and as opportunity identification (Ucbasaran et al, 2008; Shepherd and De Tienne, 2005).

The role of the entrepreneur and their human capital is often considered to be central to the business start-up process (Jones et al, 2010) at a time when the qualities of the entrepreneur and the prospects for the new business are likely to be quite uncertain (Gimeno et al, 1997). In evaluating the role of entrepreneurial knowledge and skills, attempts have been made to evaluate not only the number of business opportunities that entrepreneurs identify and pursue, but also their quality, that is their innovativeness (Shane, 2000; Fiet, 2002, Shepherd and De Tienne, 2005).

Studies have found that entrepreneurs with greater human capital do discover more opportunities (Shane and Venkataraman, 2000; Davidsson and Honig, 2003; Ucbasaran et al, 2008). However, specific human capital has greater explanatory power than general human capital in explaining the link between opportunity identification and pursuit (Ucbasaran et al, 2008). The one element of general human capital which Ucbasaran et al (2008) found correlated with higher levels of opportunity recognition was higher levels of education. This finding has been supported by Davidsson and Honig (2003), who found that work experience had a small positive effect as well. Davidsson and Honig (2003) also found that having family members and/or close friends or neighbours who owned a business was particularly influential in the decision to start a business.

In contrast, a number of elements of specific human capital have been associated with a probability of identifying and pursuing more opportunities, including having business ownership experience and having management experience. Mosey and Wright (2007) consider the levels and types of human capital held by nascent entrepreneurs as compared to

habitual entrepreneurs. In their study they found that the type of human capital required by nascent academic entrepreneurs when setting up their businesses can be quite specific (relating to the entrepreneurial opportunity they are pursuing, the industry they are entering, etc.), and so they conclude that general assistance programmes for entrepreneurs are not very helpful. In explaining the importance of human capital in opportunity identification, prior knowledge of particular markets and a clear understanding of how to meet customer needs in those markets appear to be significant (Shane, 2000; Shepherd and De Tienne, 2005; Jones et al, 2010). Shepherd and De Tienne (2005) found that not only did prior knowledge enhance the number of opportunities identified, but that higher levels of prior knowledge about customer problems enhanced the innovativeness of those opportunities. Fiet (2002) sees entrepreneurs as using their prior knowledge as a basis from which to select and search the information channels which they have available to them. However, as Shane and Venkataraman (2000) asserted, it is not sufficient just to have information about a new business opportunity, it is also essential that the entrepreneur is able to evaluate that information to recognise that it represents a business opportunity, and to understand its possible costs and benefits. As Gaglio and Katz (2001) have pointed out, potential entrepreneurs are likely to vary in their alertness to new business opportunities. This may be due to differences in their human capital (Ucbasaran et al 2006). Finally, it is important to recognise that identifying an opportunity does not mean that it will be followed up. Human capital in the form of prior knowledge and experience makes it more likely that an opportunity will be taken, because it reduces the costs of doing so (Shane and Venkataraman, 2000). Given the limited nature of many young entrepreneurs' prior work experience when starting their businesses, this study will consider other sources of prior knowledge and experience they use to identify their business opportunities in addition to any work experience they do have.

### **2.3.7 Business Performance**

Business performance is influenced by a wide range of factors, including human capital, social capital, the entrepreneur's innate talent and motivation, access to resources, market conditions and luck (Bosma et al, 2004, Wiklund and Shepherd, 2003). The significance of the entrepreneur's human capital to the firm is particularly apparent early in the start-up phase, when it may well be the only human capital to which the new business has access. The literature on human capital often aims to identify its contribution to business

performance, either on its own or in conjunction with other factors (Davidsson and Honig, 2003: 302; Ucbasaran et al, 2008; Wiklund and Shepherd, 2003). The performance of the business is often used as a proxy for the entrepreneur's own performance, given the entrepreneur's central role in the business (Bosma et al, 2004). Entrepreneurs must be able not only to identify opportunities, but also to exploit them in the market, and to implement appropriate structures and processes as the business grows (Wiklund and Shepherd, 2003).

In practice, entrepreneurs are likely to pursue a wide variety of goals, some of which are not financial or economic as such (e.g. personal autonomy) (Birley and Westhead, 1994). Hence an entrepreneur may be satisfied with the performance of his/her business even though it may not be performing particularly well according to objective business criteria, such as profitability or turnover (Chandler and Hanks, 1994). The studies reviewed here used a variety of generally recognised business criteria to assess business performance, including profitability, generated employment, annual sales, first sale, survival over time and performance against competitor businesses (Bosma et al, 2004; Davidsson and Honig, 2003; Wiklund and Shepherd, 2003). The use of such varied performance criteria makes comparisons between different studies problematic (Ucbasaran et al, 2006), and implies that there is no one set of generally acceptable performance criteria with which to measure the impact of human capital on entrepreneurial and business performance. This study uses survival (i.e. the business must have been in existence for 3 years), turnover (i.e. a measure related to sales) or investment (i.e. a measure of confidence in the business) and employment generated.

As was suggested above, while aspects of general human capital can influence business performance (Bosma et al, 2004; Wiklund and Shepherd, 2003), venture-specific human capital often appears to correlate more highly with enhanced business performance. Such specific capital can include experience of dealing with relevant customers, competitors, or business processes, which the entrepreneur acquired working for another business or businesses in the same industry, or in having started a previous venture. Both human capital theory (Becker, 1964) and resource-based theory (Montgomery, 1995) indicate that the more specific the entrepreneur's investment in human and social capital, then the greater the returns are likely to be on that investment. Shepherd and De Tienne (2005) describe how human capital in the form of prior knowledge and experience may work powerfully to motivate an entrepreneur to develop a new business, citing cases such as the inventor of

Velcro. Having existing experience in the same sector as a new start-up was found by Bosma et al (2004) to enhance performance against all three of their measures (profitability, generated employment and survival). Similarly, Wiklund and Shepherd argue that “Specific human capital such as start-up experience and experience of working in rapidly growing organisations has been found to explain, in part, the growth of small firms” (2003: 1924).

The role of human and social capital, as well as contributing more directly to productivity, can also help the entrepreneur in a more indirect way. Stakeholders, such as investors, suppliers and customers, may have greater confidence in a relatively new business if the entrepreneur running it demonstrates significant investments in his/her human and social capital (Bosma et al, 2004; Zott and Huy, 2007).

Particular aspects of business performance have been linked with elements of human capital by Bosma et al (2004). For example, in their study entrepreneurs’ previous work experience as an employee was associated with higher levels of employment in their company, while highly educated entrepreneurs were more likely to achieve higher levels of productivity. They also found that particular social capital investments were associated with higher levels of business performance. For example, membership of organised networks of entrepreneurs was associated with increased employment, while planned information collection by the entrepreneur using their commercial relationships could enhance business performance on “several measures” (Bosma et al, 2004: 232). Similarly, Wiklund and Shepherd found, in their study of entrepreneurs’ aspirations, that “a small business manager constrained by a shortage of human capital, such as education and experience, is unlikely to achieve substantial growth regardless of their motivational level” (2003: 1934). Nevertheless, they found that higher levels of education and experience were insufficient to grow a business without the necessary aspirations. However, although these mainly more recent studies do indicate various positive relationships between human capital and enhanced business performance, Ucbasaran et al point out that “Numerous studies have failed to detect a difference between novice and habitual entrepreneurs with regard to the performance of the surveyed or latest business owned” (2006:44).

Human capital studies have attempted to identify links between the entrepreneur’s human capital and the performance of their business. Some links have been established, in particular between forms of specific human capital and better business performance, but like some other

aspects of human capital, the literature is not consistent in the findings identified. A different approach is taken in this qualitative study. Participants are asked to assess what challenges they faced in managing certain aspects of their business (e.g. marketing, finance, people management) and how they used their pre-existing human capital and developed new human capital in order to manage them. As Packham (2001) has argued, a qualitative approach can be particularly helpful for looking at such management practices, even in a field of research usually approached from a quantitative perspective.

## **2.4 Social Capital**

Social capital and human capital are both concepts originally developed to explain the development of economically valuable capital and personal resources. As Manza (2006) has described, they are less tangible than economic capital but show some of the same characteristics, in that they offer value to their holder and can be invested to obtain further resources and benefits. The use of human capital relies upon the existence of a social structure and the use of social capital (Davidsson and Honig, 2003). Jones et al (2010) additionally explain that owner managers use their existing human capital to create an environment in which the firm can access and use networks, acquiring and using their social capital. Taken together these views indicate that there may be a reciprocal relationship between human and social capital, with entrepreneurs using them in combination to be fully effective (Mosey and Wright, 2007). Nahapiet (2011) is critical of much human capital research which she argues presents an “undersocialised model of man” (2011: 85). This literature often sees, “knowledge and skills as developed and embodied within an individual person, accessible and actionable with minimal regard for context” (Nahapiet, 2011: 85). Nahapiet suggests that social capital, “provides both theory and evidence to illuminate the ways in which connections and relationships share the development and realisation of human potential” (2011, 79), and argues that Coleman (1988) has provided a strong understanding of the links between human and social capital. Nahapiet (2011) suggests a number of possible ways in which human and social capital are related, including liquidity (the speed and ease with which one form of capital can be changed into another), convertability (whether it is possible to change one form of capital into another), substitutability (whether it is possible to use one form of capital to replace a deficiency in another form of capital), complementarity (the use of both forms of capital together to obtain outcomes that could not be otherwise



obtained) and co-evolution (that two forms of capital are reciprocally related in their development).

The concept of social capital is often attributed to Jacobs (1961), although originally discussed much earlier by Hanifan (1920). While social capital was originally conceived of as a set of personal ties that enabled individual development (Jacobs, 1961; Loury, 1977), it has more recently been conceived of as a broader conceptualisation of the resources that exist in relationships between social actors (Burt, 1992), and is now applied widely in the study of the social sciences (e.g. Baker, 1990; Putnam, 1995; Fukuyama, 1995).

The role of social capital in entrepreneurship is quite often addressed in studies of human capital and entrepreneurship. Social capital can be defined as “the ability of actors to extract value from their social structures, networks and memberships” (Davidsson and Honig, 2003: 307). They explain that “Social networks provided by extended family, community-based or organizational relationships are theorized to supplement the effects of education, experience and financial capital” (Davidsson and Honig, 2003: 307). Similarly, Ucbasaran et al (2008) suggest that entrepreneurs use four key sources of information, three of which are social capital networks (professional, business and personal networks), the fourth being publications. The significance of social mechanisms has been linked partly to their role in the production of knowledge and the ways in which it is used (Bozeman and Mangematin, 2004). The role of social capital in this thesis is particularly important in analysing how young entrepreneurs’ networks have changed over time as their businesses have grown. Social networks can be regarded as, “Vital living organisms, changing, growing and developing over time...Thus our conceptualization proposes that networks actually create the environment, as it is understood and operated by the entrepreneur, and that consequently the networking process is the enactment of the environment” (Jack et al, 2008: 125). It has been contended that, “Functional aspects of networks – what they do, how they are used and their general utility – are well documented. However, a gap seems to exist in that much less is known about the dynamic aspects of networking processes in a temporal framework, that is to say, how and why entrepreneurial networks change and develop over time” (Jack et al, 2008: 126).

As with human capital, it can be difficult to distinguish between an individual’s social capital and the social capital of the firm (Adler and Kwon, 2002). This thesis will consider both the

social capital that the individual young entrepreneur brings to the business and that which s/he develops during the start-up process. However, it is important to remember the dynamic interaction between the individual entrepreneur's capital and that of others (e.g. investors, employees) in the firm (Davidson and Honig, 2003). For example, entrepreneurs may take on particular employees to benefit from their social capital (i.e. their networks) (Ucbasaran et al, 2008).

Granovetter (1973) distinguished between strong and weak ties, depending on whether two people had frequent interaction (i.e. at least two times per week). Granovetter (1985) has pointed out that while strong ties offer cheap access to trustworthy information coming from a continuing relationship, strong ties may also lead to fragmentation in communities. Contrastingly, weak ties may be, "indispensable to individuals' opportunities and to their integration into communities" (Granovetter, 1973: 1378). Jack (2005), applying social network theory to entrepreneurship, emphasises that the quality of a tie should be measured by its function and how it is utilised rather than by the frequency of interaction, recalling entrepreneurs as sometimes having strong ties with people with whom they were only in infrequent contact. Participants in her study were more likely to use strong ties in the first instance if they needed help, but also found that strong ties were useful ways to gain access to weak ties if contacts with whom they had closer relationships were not able to help them directly.

Lee and Jones (2008), drawing on Nahapiet and Ghoshal (1998), identify three dimensions of social capital: structural, relational and cognitive. The two types of structural social capital are bonding and bridging capital. Bonding social capital is "based on strong ties, such as having parents who owned businesses or close friends who owned businesses" while "bridging capital [is] based on weak ties" (Davidsson and Honig, 2003: 302). Bonding social capital creates strong links of trust, as with family members or colleagues within a firm, which tend to be exclusive and which bind members together. Bridging ties arise from looser relationships that provide the entrepreneur with resources, such as information, and typically occur in various network relationships. Nahapiet argues that, "The early debates about which forms of social capital are better- for example, bonding or bridging – are now being resolved with a greater recognition of their relative merits. What is effective in one context may be less so in another, but both are important" (2011: 82).

The importance of social capital in starting and running a business occurs in many ways. The strong bonding between an entrepreneur and their parents or close friends allows the entrepreneur access to their human capital, even their financial capital, as well as their social networks (Manza, 2006). Hence a nascent entrepreneur may use both bonding and bridging social capital, with family and friends providing role models of entrepreneurial behaviour, encouragement and some business relevant information, and looser network relationships providing, for example, access to wider market related information networks and other resources unavailable within their domestic social milieu.

Lee and Jones (2008) studied nascent entrepreneurs on two different courses, one group with university level education and the other group with minimal formal education. The two groups gained similar social capital benefits from their face-to-face interaction and their bonding contacts. However, the group with little education found it harder to develop bridging social capital using electronic communication compared to the better educated group of entrepreneurs. It is the relational dimension of social capital where aspects of normative behaviour are developed such as trust, reciprocity, obligations and expectations (Lee and Jones, 2008). This trust can include sharing useful information, developing a close bond and goodwill with a particular contact, and participating in important economic transactions (Hite, 2005). The cognitive dimension of social capital involves the development of a shared understanding between entrepreneurs, which can, for example, improve their willingness and ability to share information. This cognitive social capital includes the ability of participants to engage in “face-to-face language (assertive, expressive, gestural), narrative and code (stories, jokes, anecdotes, intuitive rules) and electronic language (assertive, concise)” (Lee and Jones, 2008: 583).

Jones et al (2010) emphasise the central role of owner managers as key agents in gaining access to knowledge and networks that the firm needs. Similarly, Gimeno et al argue that “the multiple and critically important roles of the entrepreneur – as chief strategist, decision maker, as repository of much of the knowledge and skills that make up the intangible assets of the firm, as the person who develops the contacts and networks upon which the new venture depends – cannot be ignored” (1997: 777). Hence social capital has particular consequences for the young entrepreneurs participating in this study, since social networks can allow more experienced entrepreneurs to gain access to a diverse range of resources, while less experienced entrepreneurs may not have access to important resources through

their social networks, such as industry and market knowledge with which to identify business opportunities, or seed finance with which to start the business (Mosey and Wright, 2007).

The value of social capital to business growth has been argued by Davidsson and Honig (2003), using the concepts of weak and strong social ties. As the business develops, strong/bonding social networks (e.g. family, friends) continue to be important in providing encouragement and moral support, but are less well able to meet the entrepreneur's need for increasingly specific commercial information. For these needs the entrepreneur relies more heavily on weak ties/bridging networks to provide the knowledge and access to resources the business needs to develop. The importance of commercial networks is supported both by Mosey and Wright's (2007) and Bosma et al's (2004) findings about the importance of networks as a resource in information searches. Davidsson and Honig contend that "As we move from mere entry into a start-up process towards a successful completion, bridging social capital comes more to the fore, whereas the importance of human capital diminishes. This underlies that successful entrepreneurship is a social game" (2003:323). In common with Bosma et al (2004), however, Davidsson and Honig see social and human capital to be mutually reinforcing and mutually dependent when the venture creation process is viewed as a whole.

Usefully for the study of the development of the young entrepreneurs' networks in this thesis, Jack et al (2008) identify the kinds of networking activities which might take place during the establishment and growth phases of a business. Thus during the establishment phase, they suggest that the entrepreneur will identify a wide pool of potential contacts who they may wish to develop into stronger ties, and they will pre-test this pool for affective affinity and the contact's position, resources and knowledge. In the growth phase of the business, the entrepreneur will delegate more of their customer contacts to their employees to deal with, build ties that enable the business to undertake product, service and market development, and internalise strong high-level ties (e.g. possibly making a particularly useful high level contact into a non-executive director). Interestingly, Jack et al found that for two of the three entrepreneurs they studied, "In spite of their reservations about calculative behaviour, both entrepreneurs also told stories of some instances where they had explicitly set out to meet certain people in a highly instrumental manner, sometimes by joining formal groups they seemed to despise" (2008: 148). Jack et al (2009: 6) point out that social capital is both a means of enabling the participation in networks and an end, a product of networks. Thus

having social connections may enable an entrepreneur to take part in a network, but taking part in such a network contributes to the further development of an entrepreneur's social capital (e.g. the developing of more social connections).

Participants in this thesis are asked about how their networks have changed and developed as they built up their first main venture (i.e. the structure of social capital, according to Nahapiet and Ghoshal, 1998). Participants also discuss how their social connections (e.g. family, investors, mentors, other entrepreneurs) have contributed to the human capital available to their businesses. While there have been some qualitative studies of social capital (e.g. Jack et al, 2008; Lee and Jones, 2008), there has not been much qualitative investigation into the relationship between human and social capital, or into social capital and young entrepreneurship.

## **2.5 Alternative Theoretical Frameworks Considered**

Here the researcher will briefly outline other theoretical approaches that were considered in order to form the theoretical framework for the thesis, and explain why it was decided that they would not be as suitable as human capital theory, supported by social capital, in answering the research questions. Any thesis has to draw boundaries, so the argument here is not that the alternative theoretical approaches outlined here do not potentially offer value in investigating young entrepreneurship. The core concern of this research is, given that young entrepreneurs lack significant entrepreneurial and work experience, what in their background pre-start-up knowledge and skills enables them not only to start but to build a substantial business. None of the alternative approaches to human capital theory outlined here include a well-developed theoretical framework for considering pre-start-up experience. This consideration of pre-start-up experience forms a substantial part of this study, since surely the key question that has to be asked of high performing young entrepreneurs is: what experience enabled them to build their first main venture so young, despite lacking previous entrepreneurial experience and a significant number of years of work experience? This study considers not only the human capital of young entrepreneurs but also how their social capital enabled them to develop their human capital.

### **2.5.1 Entrepreneurial Learning and Entrepreneurship Education Approaches**

According to Karatas-Ozkan and Chell, “Until recently the focus of the entrepreneurial learning literature has been mostly on the cognitive processes concerned with [the] entrepreneur’s way of gathering, processing and evaluating information” (2010: 45). For Karatas-Ozkan and Chell (2010: 50), “distinguishing characteristics of entrepreneurial learning [include]:... the importance of critical incidents (Chell, 1998) or ‘learning episodes’ (Rae, 2002) which include ‘discontinuous events’ or crises (Cope, 2003)” during the venture creation process. While Karatas-Ozkan and Chell (2010) do suggest the importance of pre-start-up experience to entrepreneurial learning theory, they do not outline a well-established framework to consider an entrepreneur’s pre-start-up learning. By contrast, human capital theory does provide this framework.

Substantial studies of entrepreneurial learning have often focused on critical incidents (e.g. Cope, 2003) or learning episodes (e.g. Rae, 2003) to try and understand the cognitive and social aspects of how entrepreneurs learn in particular instances. This is important but it does mean that the focus of some of the strongest theorising in entrepreneurial learning has been less holistic than a human capital approach to investigating entrepreneurship. The author believed that it would be better to take a broader approach to understanding the entrepreneur’s biography, both pre-start-up and post-start-up, than a critical incident approach might allow. Nevertheless, there is much scope in the future for carrying out a critical incident based study into young entrepreneurs’ learning, and potentially linking this to a human capital approach. Indeed by creating a qualitative approach to human capital theory and entrepreneurship in this study, the potential is offered to bring it together with entrepreneurial learning theory from a philosophical perspective. Human capital theory investigating entrepreneurship has traditionally taken a strongly quantitative perspective (e.g. Ucbasaran et al, 2006) while entrepreneurial learning theory has often taken a strongly qualitative perspective (e.g. Cope, 2003; Cope, 2005; Karatas-Ozkan and Chell, 2010).

While qualitative studies offer less scope for generalisability than quantitative studies, the size of the samples used in entrepreneurial learning theory make it particularly difficult to generalise. In order to investigate the detailed learning processes of entrepreneurs it has been argued that it is better to study a small number of entrepreneurs in considerable detail. For example, Cope (2003) studied six entrepreneurs for his entrepreneurial learning thesis, Rae

(2003) studied three entrepreneurs for his entrepreneurial learning thesis and Karatas-Ozkan and Chell (2010) studied two entrepreneurial businesses in their book on the subject. By contrast, this study has investigated the human capital of twenty one entrepreneurs, and the researcher would contend that theoretical saturation (Bryman 2008) was not met until around the seventeenth or eighteenth entrepreneur interviewed. This means that new categories and themes would have remained undiscovered had only six entrepreneurs been interviewed. The concept of theoretical saturation is returned to in the Methodology chapter.

Theories of entrepreneurial learning have developed, to some extent, separately to theories of entrepreneurship education. For example, separate handbooks on each topic have been prepared, which do not make significant reference to one another. Alain Fayolle has published a three volume handbook on entrepreneurship education, with the third volume being published in 2010 (Fayolle, 2010). Harrison and Leitch (2008) have published a handbook on entrepreneurial learning. The focus of the entrepreneurship education literature is primarily about the teaching of entrepreneurship in formal education institutions (e.g. Gibb, 2002; Fayolle, 2010). However, it is only recently that entrepreneurship has been a widely taught business studies sub-discipline within universities. So most entrepreneurs do not have this type of education because they passed through the education system before its introduction, making it very difficult to find an appropriate sample to measure its impact. The entrepreneurship education literature also offers less understanding of how entrepreneurs practice entrepreneurship compared to the entrepreneurial learning literature. The main focus of this thesis is on the practice of entrepreneurship not formal education, so the entrepreneurship education literature would not provide an appropriate theoretical framework.

### **2.5.2 Resource-Based Theory**

Resource-based theory forms part of the broader strategy literature in management studies. This theoretical approach was also considered as an underpinning framework for this study. Barney describes resources as being, “all assets, capabilities, organisational processes, firm attributes, information, etc., controlled by the firm that enable the firm to conceive of and implement strategies that improve efficiency and effectiveness” (1991: 101). In order to gain competitive advantage, firms must both accumulate and successfully manage the necessary resources, which must be valuable, rare, hard to imitate and difficult to substitute (Barney,

1991). So, in general the primary focus of the resource-based view has been on the firm as a whole and the full range of its resources, rather than specifically studying the role of the entrepreneur.

More recently, however, resource-based theory has been specifically applied to the study of entrepreneurship. Alvarez and Busenitz (2001) have sought to analyse the usefulness of resource-based theory to understanding entrepreneurship and innovation. Entrepreneurs see and understand their resources differently to one another, Alvarez and Busenitz (2001) contend, so this enables some entrepreneurs to configure their resources to innovate and achieve competitive advantage. Resource-based theory is about which firms achieve competitive advantage and could therefore help researchers to analyse the factors underpinning high performing young entrepreneurs' businesses.

Teece (2007) uses the concept of dynamic capabilities to explain the ability of firms to create innovative responses to changing markets. Such capabilities rely on the manager's ability to understand their market and use the firm's resources flexibly to meet changing circumstances. For Teece, "Entrepreneurship is about sensing and understanding opportunities, getting things started, and finding new and better ways of putting things together. Entrepreneurial management has little to do with analysing and optimising. It is figuring out the next big opportunity and how to address it" (2007: 1346). However, Teece (2007) is clear that his concept of entrepreneurial management is equally applicable to established businesses and teams of managers, rather than solely to individual entrepreneurs and new ventures. In summary, therefore, the resource-based view recognises and attempts to explain the role of entrepreneurship in the accumulation and management of firms' resources, but its primary focus is on the firm and its resources as a whole. The importance of the individual entrepreneur and the start-up business are acknowledged, but not as the primary focus within the broader theoretical framework.

By contrast, for this thesis the primary focus is on the individual young entrepreneur and the contribution they make to the firm, and the focus is to a lesser extent on their firm's resources as a whole. The key concern here is to understand how being young may affect a person's approach to entrepreneurship, and the sharpness of this focus would be reduced if the study concentrated primarily on the young entrepreneur's firm as a whole. In addition, the resource-based view also is relevant only to entrepreneurial start-up and beyond, and it offers



no developed framework for considering entrepreneurs' experience before they start their businesses. Given the differing profile of experiences of young entrepreneurs to older entrepreneurs (e.g. less work experience and business ownership experience), a prime focus of this study is to find out how high performing young entrepreneurs manage to gain enough pre-start-up experience to enable them to build a high performing business.

Storey and Greene (2010) set out ambitiously to analyse six theoretical approaches (resource-based theory, evolutionary approaches to growth, social network approaches, managerial approaches, economic approaches, the possibility that growth is random) to understand what factors are related to growth. In practice they conclude that none of the six theoretical approaches provides a wholly satisfactory theoretical framework for analysing small firm growth. They usefully make the distinction between pre-start-up factors, at start-up factors and post-up factors associated with growth, but do not engage explicitly with human capital theory, although referring to some relevant studies. Human capital theory offers a more thorough and established approach to considering important aspects of an entrepreneur's experience such as an entrepreneur's family background. By contrast, Storey and Greene (2010) only consider family as a factor in entrepreneurial growth as it relates to family business ownership. Additionally Storey and Greene (2010) point out some of the methodological difficulties in taking a growth approach to researching entrepreneurship. In particular, they point out that obtaining multiple years of accurate data from each participant about factors such as turnover and profitability can be difficult due to factors such as commercial confidentiality. In carrying out this study, it was thought many young entrepreneurs in the small relevant population would not be willing to reveal significant amounts of financial data in order to accurately calculate rates of growth (particularly around profitability) that would underpin a thorough growth focused approach. So, asking for such data could preclude some potential participants and lead to a distorted, less broad ranging sample.

## **2.6 Young Entrepreneurs**

There has been some research considering at what age a person is most likely to set up a business and also predicting business performance based on age. However, there are fewer studies which have investigated young entrepreneurs as a specific group in their own right (Lewis and Massey, 2003). The most substantial studies of young entrepreneurs have tended

to be about their identities (e.g. Lewis and Harris, 2006; Rouse, 2004) or policies to support them (e.g. Greene, 2002; Greene 2005; Rouse, 2004; Macdonald and Coffield, 1991), rather than primarily about the actions they take in establishing and growing their businesses. In particular, there is little research about how they might compensate for a lack of conventional work experience when setting up their first business. As was discussed above, work experience, family background and education are all important human capital factors which prepare entrepreneurs with appropriate experience to start a business.

Lewis (2009), using a range of studies that consider business ownership and age, though not necessarily about young entrepreneurs in particular, summarized the key areas of agreement in the literature as follows: “self-employment is unlikely to be a young person’s first form of work (Feldman and Bolino, 2000; Shane, 1996); the young person’s work experience before starting self-employment will be in the same industry as the firm they start-up (Alsos and Kolvereid, 1998; Birley and Westhead, 1993; Lorrain and Raymond, 1990); the best source of start-up assistance (including advice, support and finance) will be the young person’s family (Payne, 1984); having self-employed parents will have positively influenced a young person’s decision to become self-employed (Blanchflower and Oswald, 2007; Scott and Twomey, 1988)”. Evidence on all of these issues will be addressed in the findings and discussion, particularly extending current knowledge about the ways in which young entrepreneurs are supported by their families. The following areas of literature relating to young entrepreneurship will be considered in this section: age and the decision to become an entrepreneur; performance and survival of their businesses; and public policy.

### **2.6.1 Age and the Decision to Become an Entrepreneur**

Entrepreneurship authors do not consistently define the age at which young entrepreneurs start and run their businesses. Lewis (2009) defines a young entrepreneur as someone starting a business under the age of 30. Lewis and Massey, reviewing the young entrepreneurship literature, point out that generally, “the term ‘young’ is used to refer broadly to those under 30 years, although some of the research discussed uses much narrower age bands (for example 15 to 24 years)” (2003: 207). The World Economic Forum (2009) report on educating young entrepreneurs defines young entrepreneurship as being up to age 22, probably largely due to the formal education focus of the report.

It has been identified that there is an inverted U shape relationship between the likelihood of starting a business and age, as well as business performance and age. Shane identifies that, “age has [a] curvilinear relationship with the likelihood of opportunity exploitation because age incorporates the positive effect of experience, which increases with age, and the negative effects of opportunity cost and uncertainty premiums, both of which also increase with age. Initially age increases the likelihood that people will exploit opportunities because people gather much of the information and skills necessary to exploit opportunities over their lives. Moreover, age provides credibility in transmitting that information to other people when people seek to obtain resources or design their organisations. On the other hand, when people become much older, the effect of age on the tendency to exploit opportunities turns negative. As people age, their willingness to bear uncertainty declines because their time horizons shorten. In addition, as people age, their opportunity costs rise because their income tends to increase” (2003:89). Reynolds explains the curvilinear relationship as follows: “activity peaks for those in their early 30s, is rather low for those in the late teens and early 20s, and drops off to almost nothing for those in their late 50s... Perhaps more significant, it would appear that those in their late 30s and early 40s are more successful in creating a new firm than those in their late 20s and early 30s” (2004: 6). Similarly, Reynolds and White (1997) found, in a study of 2624 new firms, that founders aged 18 to 24 were less likely to build high growth firms compared to founders aged 25 to 34. In the UK context, Taylor (1996) identified a similar inverted U-shaped correlation between age and self-employment, based on the British Household Panel Survey. He also identified that performance (based on gross hourly earnings) followed an inverted U shaped pattern. Storey (1994) identified age as a characteristic and predictor in a firm’s ability to grow. Blanchflower (2000; 2004; 2007) has also found that as age increases over 25, the rate of self-employment increases. However, Lorrain and Raymond were more ambivalent about there being a strong relationship between age and entrepreneurship in their study of young and older entrepreneurs, arguing, “Both groups had the same motivation to start the business, had the same growth experience, adopted the same management style and encountered the same business problems” (1990: 51). Freel (1998) suggested that age was an inexact measure in determining the decision and capability to start a business.

There has been a number of studies considering the intentions of young people to become entrepreneurs. For example, Kourilsky and Walstad (2007) have investigated the intentions

of American high school students to become entrepreneurs, finding that 65% of participants wanted to start their own business. Seventy two per cent of male students wanted to start their own business as opposed to 58% of female students in the survey. Kourilsky and Walstad (2007) also asked a separate group of 403 small business owners of all ages when they had first thought that they might want to set up their own business, finding that only 17% said they had initially thought of the idea under the age of 20, while nearly 50% of participants had thought of doing so between the ages of 20 and 30. This data suggests perhaps the increasing awareness among young Americans of the option to start a business as a career choice. Blanchflower and Oswald, in a study of 32 European countries, found that, “there is a large latent demand for a kind of entrepreneurial behaviour – self-employment. People find self-employment intrinsically attractive” (2009: 290). In particular they found that 49% of under 25 year olds in the UK would prefer to be self-employed to being an employee. By contrast, only 6.8% of under 25 year olds were self-employed at the time the data they used was collected (2000-06). In identifying the human capital stocks of those young entrepreneurs who do successfully establish a business as opposed to simply consider the option, this study helps to identify what human capital development may be necessary to encourage others to actually set up a business. Packham et al (2010) identified that different cultural influences exist in different countries impacting upon attitudes of young people and their decisions to pursue entrepreneurial careers. They suggested that, “both French and Polish students [in their study] are more positively inclined towards entrepreneurship when compared with their German counterparts” (Packham et al, 2010).

### **2.6.2 Venture Creation and Survival of Young Entrepreneurs’ Businesses**

The ability of young entrepreneurs to achieve business survival and growth has been considered to varying degrees in a number of studies, finding variable outcomes, often relating to the sample considered (Rosa, 2003; Rouse, 2004; McLarty, 2005; Lewis and Harris, 2006). Henry, Hill and Leitch have contended that, “While one might justifiably hypothesise that a more mature entrepreneur will have significantly more experience and thus may be more likely to succeed, it has also been suggested that younger entrepreneurs are possibly more likely to take more risks in an attempt to grow their business” (2003: 53). Van Praag (2003) found that young people were less likely to achieve business survival than older entrepreneurs, suggesting the best age to start a business was 32. Nevertheless the study said

that having industry specific work experience could improve a young person's chance of business survival.

The small existing body of research about graduate entrepreneurs starting a business during higher education or shortly after leaving university, does raise some concerns about the success of such businesses. A study by McLarty (2003) of 39 East Anglia graduate entrepreneurs (between age 20 and 26) found that most of them were poorly prepared in the necessary business skills to be successful, in particular marketing and finance skills. The lack of finance skills was particularly detrimental as the graduates' business developed over time. Similarly, Rosa (2003) raised concerns about the ability of a sample of Scottish graduate entrepreneurs to survive and grow businesses, particularly in high technology sectors. Lee and Jones (2008) compared a group of young entrepreneurs with a low level of education to a group of graduate entrepreneurs, finding that the graduate entrepreneurs were more likely to perform better in building their social capital. One important reason for graduate entrepreneurs' higher level of performance was having stronger literacy which enabled them to build networks better through electronic communications.

It may be that young entrepreneurs are better equipped to establish businesses in certain sectors rather than others. Cooper (2006) argues that high technology entrepreneurs often need to have significant work experience to develop the knowledge and skills necessary to start their own high technology business. She finds instead that, "sizeable numbers of firms are established by those in mid-career, after a significant time working as an employee. During this period, the entrepreneur gains knowledge and develops skills and networks, which facilitate the establishment of well-conceived and sustainable ventures" (Cooper, 2006). Entrepreneurship research has often focused on high-technology ventures (e.g. life sciences), but this thesis will suggest that younger entrepreneurs may be more successful in lower-tech ventures (though this may involve complex businesses, employing many staff and creating significant value). Thus the frequent focus of entrepreneurship literature on high-technology ventures may sometimes obscure the importance of young entrepreneurs outside these sectors. For example, Wadhwa, Freeman and Rissing (2008) found that high tech company founders in America were mostly likely to be between 35-44 (45% of total high tech start-up founders between 1995 and 2005) as opposed to 24-34 (26% of founders over the same period). The percentage of high tech founders under 24 was very low (6%). In Rosa's (2003) study of recent graduate entrepreneurs he also expressed scepticism of their

ability to set up firms in high technology sectors. Although young entrepreneurs may not be best equipped to set up businesses in certain high technology sectors, this does not necessarily exclude them from setting up a technology related business outside of capital-intensive sectors like the life sciences. For instance, 'cyberentrepreneurship' (i.e. building e-commerce businesses) is a sector which includes a high proportion of young entrepreneurs (Carrier, Raymond and Eltaief, 2004).

Storey (1994) has pointed to the contradictory ways of understanding young entrepreneurs' characteristics. On the one hand they are likely to have greater levels of energy to expend on growing their firm than older entrepreneurs. On the other hand, they may lack the combination of significant work experience and the necessary finance to pursue growth. Gray (1993) found that young entrepreneurs (aged 25-34) were likely to have a higher growth motivation than older entrepreneurs, which he argued had linkages to the life-cycles and personal motivations of his study's participants. Studies by Davidsson (1991) and Smallbone and Wyr (2000) have also added support to the idea that younger entrepreneurs are likely to have a higher orientation towards growth than older entrepreneurs. On the issue of young entrepreneurs' ability to grow businesses, Timmons and Spinelli (2009) suggest that a number of 'mega-entrepreneurs' who have built the largest global businesses began their entrepreneurial career in their twenties, but they do not develop their analysis in great depth. They name twenty of the world's wealthiest entrepreneurs who all started their entrepreneurial careers in their twenties. They suggest that to build very large businesses it takes significant learning, and possibly the entrepreneur will set up one or two businesses first (each likely to last five to seven years before being sold) before they build their largest business. This study is intended to investigate high achieving young entrepreneurs at an early stage of their career, analysing the human capital that helps them to successfully build a venture at a young age.

### **2.6.3 Young Entrepreneurs' Identities and Backgrounds**

Lewis's (2009) study of young entrepreneurs included a broad spectrum of participants in terms of sector and turnover, with a small minority of the participants fulfilling the criteria for this thesis, but with participants generally having lower turnovers. Lewis (2009) was more interested in the entrepreneurs' identities than analysing in depth their actions in establishing and running their businesses, which means that her findings complement this study well

which focuses on young entrepreneurs' venture creation activities and human capital development. In analysing the identities of the entrepreneurs they interviewed, Lewis and Harris (2006) point out that it is important to move beyond the stereotypes in popular culture of young entrepreneurs.

Rouse's (2004) study of a youth enterprise programme (the Prince's Trust) investigated nineteen disadvantaged UK young entrepreneurs from an identity perspective. Business survival was the exception rather than the norm in Rouse's (2004) study which also meant that her participants had a differing experience of the venture creation process to those in this thesis. She considered the range of identities they displayed within the context of their social and cultural environments, and the degree to which participating in the youth enterprise programme enabled them to overcome their disadvantages. The study acts as a starkly contrasting group of young entrepreneurs compared to nearly all participants in this thesis who usually had at least one parent from a middle class profession.

MacDonald and Coffield's (1991) study of 100 young people on young enterprise training in Teesside is a well regarded study that contextualizes the young entrepreneurs' learning within their location, an area not associated with high levels of small business start-up. They found that the participants from middle class backgrounds had certain benefits compared to those with working class parents, for example middle class young entrepreneurs being able to receive investment from parents to pay for shop premises rental agreements.

#### **2.6.4 Public Policy**

As was suggested in the Introduction chapter, young entrepreneurship is increasingly receiving attention from policy makers, both to encourage entrepreneurship education in schools and universities, and to encourage young people to start their own businesses. There are today school and university level, regional level, national government, EU and global level policies on entrepreneurship education. The World Economic Forum (2009) document on enterprise education is particularly useful for providing a comparative approach to education policy between countries. Blanchflower and Oswald (2009) have argued that encouraging young entrepreneurship as part of public policy may be important for the following reasons, although they stress that they should be seen as hypothetical benefits rather than being evidence based: "Entrepreneurship may promote innovation and thus create new jobs; There may be a direct effect on employment if new young entrepreneurs hire

fellow youths from the dole queues; New small firms may raise the degree of competition in the product market, bringing gains to consumers; Young entrepreneurs may be particularly responsive to new economic opportunities and trends; Greater self-employment among young people may go along with increased self-reliance and well-being” (2009: 189).

In a review of entrepreneurship policy for younger people from 1975 to 2000, Greene (2002) found that there was an upsurge in self-employment amongst this group in the late 1980s in line with the government’s strong focus upon developing an enterprise culture, although from 1992 onwards the level of young self-employment fell back. The 1980s saw the development of mass training programmes incorporating enterprise such as the Youth Opportunities Programme and the Youth Training Scheme, but these gave way to more individually focused approaches to skills and educational development of young people in the 1990s (Greene, 2002). Entrepreneurship policies for young people have continued since this period, but they have become more integrated with schooling and higher education, rather than being full time vocational training programmes. Equally more individualised enterprise support is now offered to young people who have a particular business idea through organisations such as the National Centre for Entrepreneurship in Education.

The National Centre for Entrepreneurship in Education (NCEE), formerly the National Council for Graduate Entrepreneurship (NCGE), is one of the key government funded delivery mechanisms to raise the profile of entrepreneurship amongst young people. A useful review of the literature on graduate entrepreneurship and related policy concerns is provided by Paul Hannon (2004), the current acting Chief Executive of the NCEE. He identifies a number of gaps in the research literature, including, “How is support used by graduates as part of the process or transition from academic studying to the world of owning and running a business?” and “What is the relationship between use of support and likelihood that a graduate will start their own business within a year of graduation?” (Hannon, 2004: 58).

*Developing Entrepreneurial Graduates* (NESTA, 2008) was published to encourage the development of a higher education infrastructure where a greater proportion of UK students could engage in entrepreneurial education and activity. Entrepreneurial skills are seen by the report’s authors as a means of encouraging innovation in the public and voluntary sectors as well as business. Thus the scope of the report goes significantly beyond creating entrepreneurs who will want to set up their own businesses. It defines entrepreneurship as,



“not solely about business skills or starting new ventures; it is a way of thinking and behaving relevant to all parts of society and the economy” (NESTA, 2008: 12).

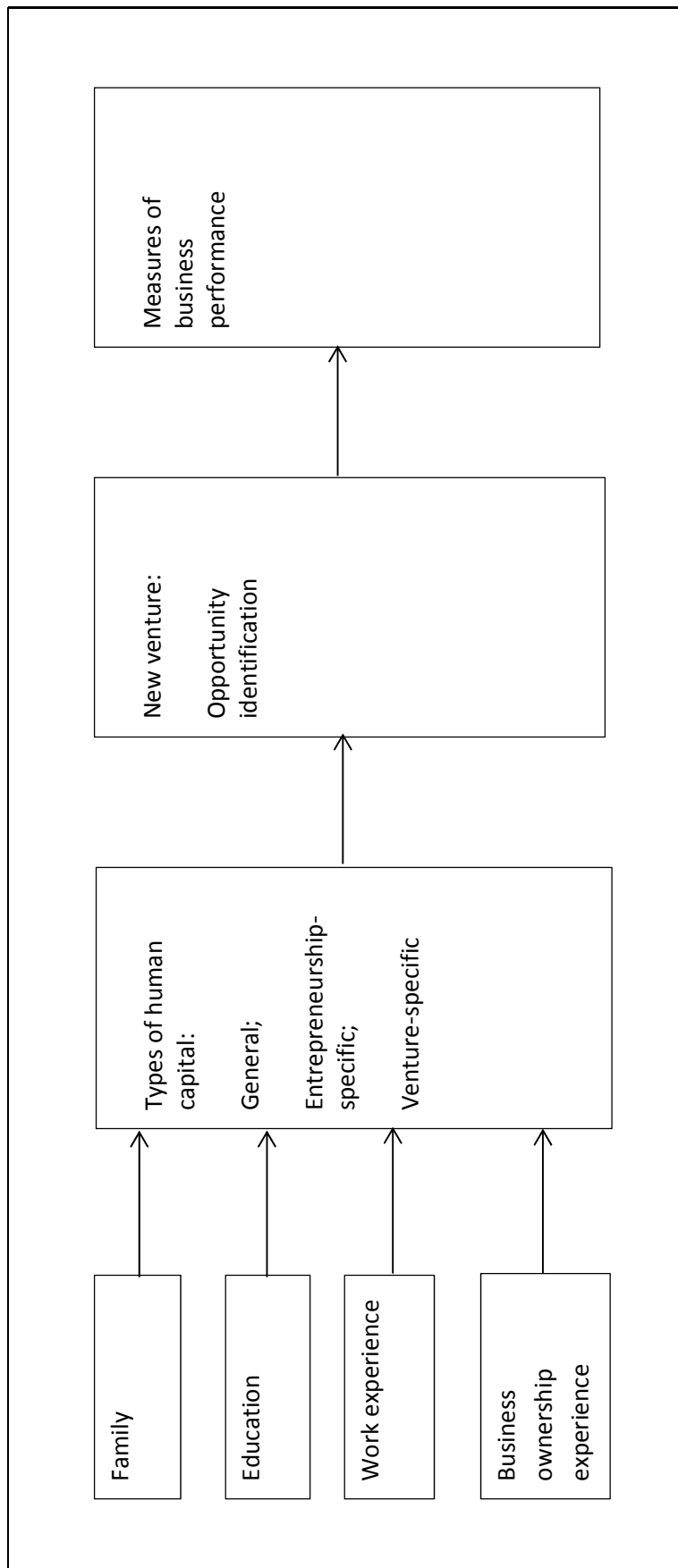
There is, however, a policy debate over whether government policy should specifically encourage young people to set up new businesses straight after leaving education. For example, it is questioned whether these new graduates generally have the correct level of commercial experience. The former Director of the Cambridge-MIT Institute, Dr William Lucas (2007), has suggested that although he is in favour of teaching university students enterprise skills, those graduates who start a business in their early 20s may start less successful and sophisticated businesses than those in their 30s.

While there is currently a range of government policies and educational policies to encourage young entrepreneurship, there is a very limited evidence base about the real needs of young entrepreneurs in establishing their businesses to underpin those policies. This study aims to identify what the needs of young entrepreneurs are to start their business, in particular the knowledge and skills they require and how these are developed.

## **2.7 Conclusion: a Conceptual Framework**

In the conclusion to this chapter, the key concepts drawn from the literature that provide a framework for the thesis will be outlined. These have already been set out individually in more detail earlier in the chapter, but here the framework of concepts that will be taken forward in the thesis will be confirmed. Human capital theory has been widely applied to the entrepreneur population as a whole (e.g. Cooper et al, 1994; Gimeno et al, 1997; Davidsson and Honig, 2003; Ucbasaran et al, 2006; Loasby, 2011; Rauch and Rijsdijk, 2011). However, the human capital used by young entrepreneurs in building their businesses has not been specifically analysed in the young entrepreneurship literature. Given the current public policy interest in young entrepreneurs, together with the expressed aspiration of large numbers of young people to set up a business, it is important to understand what human capital young entrepreneurs have developed to enable them to start and grow their businesses in practice. Existing studies of young entrepreneurs have often identified poor rates of business performance and survival (e.g. Rosa, 2003; Rouse, 2004), so considering the venture creation activities of the high performing young entrepreneurs who have taken part in this research will enable young people and policy makers to understand some of the factors

needed to succeed. As has been shown, there are currently no substantial studies focusing on high performing young entrepreneurs. This creates a gap this study will address.



**Figure 2.1: Human Capital Development**

Entrepreneurs develop the human capital necessary to build their businesses both prior to start-up and during the venture creation process, but young entrepreneurs usually lack the previous work, managerial and entrepreneurial experience older entrepreneurs are more likely to possess. This makes it particularly interesting and important to understand how high performing young entrepreneurs use their more limited human capital to build substantial businesses, despite having less human capital than older entrepreneurs. The decision as to which human capital factors to investigate has been informed by existing studies, as well as by an inductive element to the interviews. Figure 2.1 presents a framework setting out the current state of the human capital literature. The following human capital factors will be investigated in this thesis: family; education; work experience; informal ventures; and, personal interests. The first three of these factors have been widely established as important pre-start-up human capital factors to investigate (Cooper et al, 2004; Gimeno et al, 1997; Ucbasaran et al, 2006). It will be noted, however, that the final two factors have not been identified in the literature review and are not presented in Figure 2.1, since they are not covered in the existing literature. Instead, they were uncovered during the empirical data collection, inductively through listening to the important factors which had played a part in helping the young entrepreneurs in this study prepare to start their first main ventures. They will be explored in detail in the findings Chapter 4 and the discussion of the findings in Chapter 6.

This chapter, following Bosma (2004), has identified three types of human capital that will form part of the conceptual framework for the thesis: general human capital; entrepreneurship-specific human capital and venture-specific human capital. Each type of human capital is described earlier in this chapter. It is necessary to better understand what sources of general human capital, venture-specific human capital and entrepreneurship-specific human capital young entrepreneurs use in establishing and building their businesses. This focus on human capital development will also shed more light on the venture creation process than the most substantial existing studies of young entrepreneurship, which often have a greater focus on the identities of young entrepreneurs and/or public policy (Macdonald and Coffield, 1991; Rouse, 2004; Lewis, 2009). The Discussion chapter (Chapter 6) will consider how each of the three types of human capital are developed by the participant young entrepreneurs, based on the empirical findings.

Venture creation is a key focus of entrepreneurship research (Shane, 2003). Opportunity identification has been considered by some existing human capital studies of entrepreneurship (e.g. Shepherd and DeTienne, 2005). However, how pre-start-up human capital specifically prepares entrepreneurs to carry out the core marketing, finance and people management functions has not been considered previously. Instead human capital studies generally have linked pre-start-up human capital directly to business performance, measured by turnover or profitability, for example. This study, by contrast will show how particular aspects of pre-start-up human capital prepare entrepreneurs to carry out particular business functions (in particular marketing, finance and people management), as well as where pre-start-up human capital does not equip the young entrepreneurs in their venture creation activities. Rosa (2003) and McLarty (2005) have both found that it is important to identify why young entrepreneurs succeed or fail in carrying out these crucial business functions. A fourth key activity that will be considered in this thesis is business planning, which was explored in Rouse's (2004) and Macdonald and Coffield's (1991) studies of young entrepreneurship. Such studies had not explicitly researched 'business strategy', perhaps because this term is often associated with more mature entrepreneurial businesses, rather than being a term familiar to early stage entrepreneurs.

In common with several studies of human capital, this study will also consider the relationship between human and social capital (Davidsson and Honig, 2003; Mosey and Wright, 2007; Nahapiet, 2011). The influence of social capital on the development of human capital is demonstrated in Figure 2.1 by the encompassing rectangle. Considering how the young entrepreneurs' social capital contributes to their human capital enables the researcher to avoid an 'under-socialised' view of human capital according to Nahapiet (2011). For this reason, the young entrepreneurs' networks and social capital will be investigated, something which previous studies of young entrepreneurs have not done. Nahapiet (2011) argues that it is important to understand how social capital is involved in the building of human capital. This study will consider practically, through the findings, how young entrepreneurs developed a wide range of relationships encompassing social capital. Young entrepreneurs lack significant work, managerial and entrepreneurial experience when starting their first main ventures (i.e. key human capital assets), so it is particularly important that they draw upon all the resources available, including social capital, in order to develop their human capital.

## CHAPTER 3: RESEARCH METHODOLOGY

As identified in the Literature Review, research into young entrepreneurs' development is still at an early stage and there is much scope for exploratory studies in this area. This study adopts a qualitative approach to analyse the building of young entrepreneurs' human capital. There is a division between qualitative and quantitative research about entrepreneurship, which also reflects, to some degree, respective differences between continental and American approaches to its study (see Neergaard and Ulhoi, 2007). The growth of qualitative research approaches to entrepreneurship has been slow according to some (e.g. Neergaard and Ulhoi, 2007; Bygrave, 2007). Hindle has argued that, "Unless entrepreneurship... begin[s] to embrace higher volumes of higher caliber qualitative research, the relevance and potency of the entrepreneurial canon will be severely compromised by a lack of the methodological variety that is so strongly displayed in other social sciences" (2004: 577).

Positivist and interpretivist research can complement each other (Neergaard and Ulhoi, 2007). Neergaard and Ulhoi suggest that a valuable approach is to, "embrace the scope and richness of qualitative research while at the same time acknowledging the qualities of the more established, traditional or well-accepted approaches, both qualitative and quantitative. Various forms of quantitative approaches are indeed useful when there is a need to provide generalisable representative description as well as statistical analyses" (2007: 5). This study draws on concepts and empirical frameworks from quantitative human capital studies (e.g. Cooper et al, 1994; Davidsson and Honig, 2003; Ucbasaran et al, 2006), but is intended to develop a greater understanding of the phenomena that underlie those quantitative human capital studies through adopting a qualitative approach. This is an exploratory study about young entrepreneurship, using human capital for the first time to research this group.

### 3.1 Research Questions

How young entrepreneurs develop the human capital to build their businesses seems a particularly interesting area of investigation given their relative lack of business experience compared to older entrepreneurs (Shane, 2003). This has led to the development of the following research questions, drawing on the conclusions of the literature review.

The overall aim of this research is to identify the knowledge and skills young entrepreneurs use to build their businesses. This leads to the following research questions:

Question 1: What useful knowledge and skills do the young entrepreneurs believe they developed prior to starting their first main ventures?

Question 2: In what ways do the young entrepreneurs utilise their existing knowledge and skills, and develop new knowledge and skills, in approaching the opportunity identification and marketing of their first main ventures?

Question 3: In what ways do the young entrepreneurs utilise their existing knowledge and skills, and develop new knowledge and skills, in approaching the finance, people management and business planning of their first main ventures?

Question 4: How does human capital theory contribute to understanding the knowledge and skills young entrepreneurs use to start and build businesses?

Question 1 investigates the growth of the young entrepreneurs' stock of human capital as it is built from childhood through to the establishment of their first main ventures. Questions 2 and 3 consider how that pre-start-up human capital is put to use in the creation of the young entrepreneurs' first main ventures, as well as what new human capital is developed during the building of their businesses. Finally Question 4 asks for an assessment of the ways in which human capital theory adds to a theoretical understanding of young entrepreneurship.

### **3.2 Research Philosophy**

As Jennings et al describe, "Either explicitly or implicitly, researchers base their work on a series of philosophical assumptions regarding ontology, epistemology, and human nature, which have methodological consequences" (2005: 145). Human capital research about entrepreneurship has generally been undertaken from a positivist perspective. Positivism can be explained as, "an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond" (Bryman, 2008: 13). This epistemological approach involves the use of hypotheses, large surveys, numbers and quantitative data, and the verification and falsification of theories (Thorpe, 2011). Ucbasaran et al (2006), Gimeno et al (1997) and Davidsson and Honig (2003), for instance, have all considered the statistical relationships between human capital assets and business performance using large data sets. Quantitative methods can be appropriate to investigate correlative relationships when there are a number of variables involved (Davidsson, 2008).

However, qualitative research can be more appropriate to study the nature of phenomena in detail (Davidsson, 2008).

Phan (2004) has argued that there is a need to develop greater diversity in the range of methods used to better understand entrepreneurship. Similarly, Bygrave (2007), from an American perspective, points out the lack of qualitative research published in leading journals: “95% of the entrepreneurship articles published in nine ‘A’ journals used statistical analysis... only 10 percent were based on interviews, and less than 1 percent on observation; it’s extremely difficult to get qualitative research published in ‘A’ journals” (2007: 24). Interpretivism, however, has become gradually more accepted in entrepreneurship research, particularly in the UK and Europe (Jennings et al, 2005). Interpretivism may be defined as, “an epistemological position that requires the social scientist to grasp the subjective meaning of social action” (Bryman, 2008: 694). A key difference to the positivist position is that interpretivist researchers believe that social scientific phenomena are fundamentally different to natural scientific phenomena, and thus require different approaches to researching them (Bryman, 2008). For Bryman, “The clash [between positivism and interpretivism] reflects a division between an emphasis on the *explanation* of human behaviour that is the chief ingredient of the positivist approach to the social sciences and the *understanding* of human behaviour” (2008: 15). It is this aim to understand social action from the perspective of social actors that separates interpretivism from positivism. Interpretivism involves the asking of questions, studying small samples, words and numbers, triangulation and theory generation (Thorpe, 2011). It relies on an ontological understanding of the world that there are many truths, rather than a single truth, and that these truths are constructed by social actors (Thorpe, 2011).

The aim of this research is to understand the perspectives of the participants about how they have developed the knowledge and skills relevant to starting and building their businesses. This should lead to a clearer understanding of the human capital factors which underpin quantitative human capital studies. The study adopts the use of semi-structured interviews, which can lead the qualitative researcher into “novel and unexpected areas” raised by the interviewees (Berglund, 2007: 83). The use of semi-structured interviews enables the researcher both to identify key variables in young entrepreneurs’ human capital development and understand them from the participants’ own viewpoints.

### **3.3 Research Design**

Bryman (2008) makes an important distinction between the research design chosen and the research method adopted. According to Bryman (2008: 31), “A research design provides a framework for the collection and analysis of data”, involving the selection between an experimental design, a cross-sectional design, a longitudinal design, a case study design or a comparative design. Bryman describes how this is different to the research method, which “is simply a technique for collecting data. It can involve a specific instrument, such as a self-completion questionnaire or a structured interview schedule, or participant observation whereby the researcher listens to and watches others” (2008: 31).

This study adopts a cross sectional research design, collecting qualitative data at one point in time about each case (Bryman, 2008). For studying human capital this is necessary, since a person’s development of human capital relevant to entrepreneurship begins from childhood onwards in the family and the education system, as well as later on during the course of their work and entrepreneurial career. So it would be impossible to directly observe a particular case as they developed all their human capital longitudinally, as the timeframe involved to collect the empirical data would be impractically long.

### **3.4 Identifying Sample Criteria**

In this section the parameters of the sample and sample size are outlined. The parameters of the sample are that participants: started their business under the age of 30 and are under the age of 35 at the time of interview; have run a business with five or more employees; have operated their business for at least three years; and, have built a turnover of over £1million or raised £1million in external investment.

Defining young entrepreneurs as being under the age of 30 at the time of starting their business, and under 35 at the time of interview, gave the participant entrepreneurs enough time to have set up and operated a business for at least three years. Three years’ experience allowed the entrepreneurs enough time to demonstrate entrepreneurial behaviour in practice and to have had some time to reflect upon and learn from that experience. (In practice no young entrepreneur was over the age of 26 when starting their business in this study, and no participant was older than 32 at the time of interview.) The definition of a young entrepreneur being under 30 when starting a business was also chosen following the



precedent of Kate Lewis (2009), one of the most significant writers about young entrepreneurship.

Bygrave's "greatest gripe with statistical analysis in entrepreneurship is that it is a study of central tendency, whereas Schumpeterian entrepreneurship is all about outliers... Another related gripe is that when we make a random survey of entrepreneurs or would-be entrepreneurs in the general population, we almost always fail to acknowledge that half the full-time entrepreneurs have no employees other than themselves. Hence only one-quarter of the respondents have or intend to have employees" (2007: 22). The sample in this study attempts to deal with Bygrave's "gripes", in that the young entrepreneurs chosen have been selected because they have built a significant business that has generated employment. This sets them apart from many samples of young people identified as entrepreneurs in other studies which are primarily focused on the self-employed (e.g. MacDonald and Coffield, 1991; McLarty, 2005; Rosa, 2003; Rouse, 2004).

Recruiting young entrepreneurs to the sample with three years' experience running their businesses, allowed the entrepreneur enough time to have developed a business that employed at least five people (another important parameter of the sample for this study). Managing a reasonable sized team of people (at least 5) is considered part of the entrepreneurial role in growing a business, at least initially before a professional manager or managers might be brought in. Young entrepreneurs, in particular, would be unlikely to have the funds to bring professional managers in at the very beginning of a venture, since they have not had the time to build their own financial capital as older entrepreneurs may have done when starting-up. Thus people management is an important part of the venture creation process for this project to consider (Cooper et al, 1994; Gimeno et al, 1997).

The choice of the parameter, that young entrepreneurs should have £1million annual turnover or have raised at least £1million in investment, was chosen deliberately to differentiate the sample from those studies investigating self-employed young entrepreneurs running a very small business that did not grow. Nearly all participants in practice had an annual turnover between £1 million and £90 million, but a small minority of participants who had little more than three years experience and so were at an earlier stage than most, were selected because they had raised £1million in external funding.

A sample of 21 cases conforms to the sample size of qualitative studies in the special qualitative methods edition of the *Journal of Business Venturing*, edited by Gartner and Birley (2002), and Neergaard's (2007) recommendations. The sample size was determined through actively carrying out the research and identifying the point at which theoretical saturation was reached as described by Bryman (2008). Theoretical saturation is defined as being reached, according to Bryman (2008), when further increasing the sample size does not reveal new categories or significant new details about existing categories. While the researcher was certainly identifying significant new details about existing categories conducting the eleventh interview, by the time the researcher reached the nineteenth interview it was apparent that significant new details were not being revealed. Hence the last two interviews were carried out simply to be sure that this judgement was correct.

Silverman (2008) argues that, "Everybody knows that qualitative research can work fruitfully with very small bodies of data that have not been randomly assembled... [So the role of the researcher is to] explain how you can still generalize from your analysis" (2008: 377). He points out that breadth of experience should be regarded as an important part of choosing a sample in qualitative research. Participants in this study were chosen to reflect a range of business sectors and educational experiences. Six participants were chosen who had only school experience, eight participants were chosen who had a school and university experience, and seven participants were chosen who had a school, university and graduate work experience. These three groups form Pathways 1, 2 and 3 in the findings of the research, and greater detail about each pathway can be found at the start of Chapter 4. Participants were chosen from across northern and southern England and Wales. A wide range of sectors are reflected in the sample, as outlined in Table 4.1 at the beginning of the next chapter.

### **3.5 Finding the Participants**

There is no feasible way of identifying all young entrepreneurs from which a random sample could be drawn, and the experience of researchers of young entrepreneurs has been that it is not easy to identify participants, as even when databases of entrepreneurs are produced these are often not classified by age (Lewis, 2009). For this reason it was decided that purposive sampling was the most appropriate way to choose a sample. Bryman (2008) describes how purposive sampling is regularly used by qualitative researchers because it allows the

researcher to identify an appropriate sample to precisely address their research questions. In this study it was necessary to identify young entrepreneurs who met the sample criteria detailed above. It was clear during the course of carrying out the study that there was a limited cohort of young entrepreneurs who met the criteria, and no comprehensive database that could identify all UK-based young entrepreneurs with the appropriate characteristics. The highly experienced compiler of the Sunday Times Young Rich List confirmed, for example, that there was only a small pool of young entrepreneurs who would fulfill the sampling criteria (Dr Philip Beresford, personal communication, 2010).

Sources used to identify participants included competitions for young entrepreneurs, media features on young entrepreneurs (e.g. in broadsheet newspapers and business magazines), and snowball sampling. Similar approaches to identifying entrepreneurs who have built significant businesses have been used by other researchers. For example, Sarasvathy used two sources to identify the older “expert entrepreneurs” for her study: “a list of the 100 most successful entrepreneurs from 1960 to 1985, compiled by the venture capitalist David Silver (Silver, 1985); and... the list of national winners of the Entrepreneurs of the Year awards, compiled by Ernst and Young” (2008: 21). As identified above, in building the sample, an element of “snowballing” sampling (Bryman, 2008: 459) was also used. Once the semi-structured interviews started, participants were asked to suggest names of potential interviewees. Investors were also consulted to enable the identification of young entrepreneurs who might meet the sample criteria. In practice such recommendations often confirmed potential participants identified already by the researcher. Five new participants, however, who had not previously been identified by the researcher, were recruited through the suggestions of interviewees and investors.

Finding and recruiting participants who met the study’s criteria could sometimes prove time consuming, especially since interviewees’ criteria were not pre-qualified through being a member of any particular group or organisation. Invariably ambitious young entrepreneurs building growth businesses are extremely busy, and many are also frequently asked to do interviews by journalists. Indeed their expectations of the interview process sometimes conformed to their experiences of having undertaken media interviews.

In practice it became apparent that it was very difficult to achieve an equal gender split in the sample, because very few young women entrepreneurs were identified who met the sample

criteria. In fact, only five such potential participants were identified, two of whom agreed to take part. Silverman (2008) argues that achieving statistically balanced samples on the basis of demographics such as gender is not necessary in a qualitative study, and instead the main determinants of who is chosen should be to provide the greatest breadth of experience among participants who fulfill the sample criteria. The differences in rates of entrepreneurship between men and women are well evidenced by reports of the Women's Enterprise Taskforce which has found that "female-owned businesses account for only 15 per cent of British business stock" (Galloway, 2012), and this trend appears to be particularly apparent amongst high performing young entrepreneurs. Kate Lewis also recalled it being difficult to identify young women entrepreneurs running businesses with high performance criteria in terms of annual turnover (Dr Kate Lewis, personal communication, 2011). There are also no women entrepreneurs in the Sunday Times Young Rich List of the UK's 60 richest young people, although there are women in the list who have become wealthy through professions such as acting and singing.

Participants were initially contacted by email or post. The initial correspondence set out the purpose of the research and the involvement that would be required from participants in the research process. An interview date and time were then set up with correspondents who agreed to take part. Participants provided informed consent to take part in the research process on the basis that the data about them would only be published in an anonymous format. Pseudonyms have been used to ensure that participants' identities could not be identified.

### **3.6 Interviewing**

The choice of data collection technique was carefully considered by the researcher in the early stages of the research. The researcher was mindful of Bygrave's powerful arguments in favour of conducting longitudinal studies of entrepreneurs at work in the field: "Entrepreneurship cries out for more in-depth longitudinal case studies that will help us understand the process of entrepreneurship" (2007: 43). However, he also acknowledges that such, "longitudinal field research is excruciatingly time consuming, so it does not fit the time constraints imposed on most researchers, especially doctoral students" (Bygrave, 2007: 43). Additionally, to be able to generalise from the sample, the researcher wanted a reasonable sample size, and also the sample to reflect a significant range of experiences. The busiest,

highest performing young entrepreneurs would be unlikely to have the time to engage in an intensive multi-faceted research process. Rae (2003) found that few entrepreneurs were willing to engage in a long term research process when he was collecting his data for his longitudinal thesis research. Because he wanted to do multiple interviews and very detailed case studies on each participant, he found that, “There were people who were already running creative business ventures whom I would have liked to participate, but who chose not to do so. Some did not return phone calls. Others took part in one interview, then made excuses and withdrew... [I] had to be selective in using those whom I considered would provide new understanding of entrepreneurship in the sector, and who were prepared to engage with me in the collaborative creation of meaning through telling their stories” (2003: 91). In the end he focused his thesis on three detailed case studies, but the researcher in this thesis wanted to build a larger sample, not least to identify the fullest possible range of human capital factors young entrepreneurs drew on in starting and building their businesses. As was suggested earlier in the chapter, once the decision was made to adopt human capital theory to investigate young entrepreneurs’ development, it was decided that this theory could not reasonably be studied from a longitudinal perspective or using observations. This is because human capital development of young entrepreneurs begins in childhood, far longer than the period available for empirical data collection in a thesis.

The advantages and disadvantages of interviewing are set out clearly by Cassell and Symon (2004). Interviewing can use, “quite focused questions about aspects of organizational life, for instance, specific decision-processes... interviews can [also] be used to examine much broader issues, in areas such as gender, organizational culture and the effects of unemployment” (Cassell and Symon, 2004: 21). In this study, specific pieces of information have been collected through more structured questioning (e.g. financial information about businesses and employee numbers), as well as information about broader topics through more open ended questions (e.g. how they developed their people management skills). This potential for interviewing to be able to collect such varied data made it useful for studying young entrepreneurs’ human capital. Importantly, “the qualitative research interview is a method which most research participants accept readily” (Cassell and Symon, 2004: 21). This was an important factor in selecting interviewing as the main data collection method, given the aim of the researcher to encourage a broad range of participants who met the sample criteria to take part. In terms of the downsides of collecting data through interviews,

Cassell and Symon (2004) point out a key problem is that qualitative interviews generate large amounts of data which can give the researcher a feeling of 'data overload' in trying to handle the material generated. For this reason the author selected thematic analysis as a means to analyse the large amounts of data that were generated. The researcher had been previously trained in how to undertake thematic analysis as part of the Masters of Research in Social Sciences at Loughborough University.

Qualitative interviewing usually involves the creation of an 'interview guide' of questions rather than an 'interview schedule' (Cassell and Symon, 2004). It is argued by Cassell and Symon that, "The qualitative research interview is not based on a formal schedule of questions to be asked word-for-word in a set order. Instead it generally uses an interview guide, listing topics which the interviewer should attempt to cover in the course of the interview, and suggesting probes which may be used to follow-up responses and elicit greater detail from participants" (2004: 15). Topics for an interview guide can arise from three sources: "the research literature, the interviewer's own personal knowledge and experience of the area, and informal preliminary work such as discussions with people who have personal experience of the research area" (Cassell and Symon, 2004: 15). The topics to be included in the interview guide were identified partly from the literature, as well as from conversations with relevant stakeholders discussed below. The human capital literature provided an initial conceptual framework of the various kinds of human capital used by entrepreneurs in building their businesses (e.g. Cooper et al, 1994; Gimeno et al, 1997; Ucbasaran et al, 2006). The broader literature on the early development of young entrepreneurs (e.g. Aldrich and Kim, 2007; Kirkwood, 2007) provided a more thorough qualitative understanding of some of the human capital factors being investigated in this study, in particular the role of the family. Such detailed literature was helpful for the researcher in developing a more complete understanding to ask relevant probing questions in addition to the key questions in the guide.

To help develop the focus of the project in an exploratory domain of research, informal discussions were undertaken to learn more about young entrepreneurship with relevant stakeholders. These conversations do not form part of the research data presented in the thesis since they enabled the preparation of the interview guide but do not directly answer the research questions, which focus on the entrepreneurs' perspectives on their own human capital development. They took place early in the research process, to supplement the literature review, in particular given the lack of a large literature on young entrepreneurship.

These interactions were with university incubator managers, venture capitalists, organisers of university entrepreneurship societies, business angels, entrepreneurship educators and young entrepreneurship researchers.

Semi-structured interviewing has been adopted as the most appropriate data collection technique for this project to answer the research questions from an interpretive perspective, reflecting the different kinds of information the researcher wanted to collect from participants, as discussed above. While in semi-structured interviewing it is important to give the interviewee the opportunity to introduce their own ideas and perspectives into the interview, it is necessary to have a clear list of questions in order to ensure that key issues are not missed. It is useful to create a topic order for the interview, but to employ flexibility in using it (Bryman, 2008: 442). Following the chronological development of the entrepreneur and their business both before and during start-up, and during growth, seemed to be the most logical approach that would be easy for the young entrepreneurs to follow and engage with, and this proved to be the case in practice. It was also important to develop rapport with interviewees early in the interview before asking about potentially more sensitive areas of their business later in the interview process, such as their experiences of managing people and about financial data.

Given that the topics being discussed were personal to the participants, providing the interviewee with some freedom to tell their story in the way they felt most comfortable can help to build rapport in a way not possible in a formal, structured interview (Easterby-Smith et al, 2002). The balance of structure and flexibility adopted in the interviewing allowed the collection of rich and detailed information (Easterby-Smith et al, 2002; Bryman, 2008), while permitting valuable comparisons to be made between the responses.

Once the process of conducting semi-structured interviews with the young entrepreneurs began, participants contributed to the development of the interview guide. This occurred through allowing the young entrepreneurs to tell individual stories about how they had become entrepreneurs and built their businesses, explaining what was important to them. Most significantly, by allowing participants to lead the interview at times, providing information that was important to them, the new human capital factor of informal ventures was identified, something not found in the existing human capital or young entrepreneurship

literature. Informal ventures (participants' informal business activity as children and teenagers before setting up their first main ventures) are fully explained in Chapter 4.

It is also the case that entrepreneurs as a subject group sometimes need appropriate probing during an interview in order to gather the data the researcher needs, since the entrepreneur will often want to present as positive a narrative as possible about their business (Professor Allan Gibb, personal communication, 2008). Bryman (2008) has suggested some probing questions to encourage interviewees to expand upon questions they have not provided sufficient answers to such as, "Could you say a little more about that?", or "Are there any other reasons why you think that?" The interviewer summarized participants' responses sometimes, both to clarify their meaning and to indicate the need to move on to another topic. Both when probing and summarizing, the interviewer was aware of the need to adopt a neutral tone and language, and not to impose his understanding on to the participant. All interviews were recorded using a dictaphone and subsequently transcribed.

Each interview covered aspects of the entrepreneur's family background, education and work experience. The interview also included questions about the development of the young entrepreneur's first main venture, including the knowledge and skills drawn upon to undertake: opportunity identification; marketing; financial management; people management; business planning; and, developing their social capital.

Appendix 1 provides a copy of the interview guide, while Appendix 2 provides a sample interview transcript. Details about all 21 participants are provided in Tables 4.1 and 5.1 in the two chapters following this one.

### **3.7 Documentary Materials**

Documentary materials that have been particularly helpful in preparing to conduct interviews include web-based data about the young entrepreneurs, such as previous newspaper interviews they have participated in (e.g. *Sunday Times* 'How I Made it' column), their social media published data (e.g. Twitter accounts), blogs, company reports, and their websites (which often include information about the company such as hierarchy of managers, etc.). It is not possible to identify particular references to documents here as they would identify the young entrepreneur participants in the study, thus removing their anonymity. When analysing these documents it was important to consider that the writers, "are likely to have a



particular point of view that they want to get across” (Bryman, 2008: 522). Forster’s (1994) study of company documentation offers a useful approach to analysing documents effectively. He interviewed many of the authors of the documents he studied in order to analyse the documents’ accuracy and validity. It is important to remember that different people within an organisation will often have different perspectives and viewpoints on the issues, and that documents “have to be interrogated and examined in the context of other sources of data” (Bryman, 2008: 522). Following Forster’s (1994) and Bryman’s (2008) advice, the researcher used the available documents analytically cross-referencing data from other documents and the interviews.

Using these documentary sources enabled the researcher to prepare for interviews and learn about the interviewee and useful areas of questioning beforehand. Being well informed about the potential interviewee’s background and business was also helpful for making the initial contact to set up an interview, as it enabled the researcher to make a tailored approach, so that the interviewee could see the researcher was well informed and serious. Using the documentary materials to prepare before the interviews themselves allowed the researcher to participate more fully in the ‘conversation’ of the interview and be a more engaging and knowledgeable interviewer. Reading documents beforehand enabled the researcher to find out about participants’ biographies, opinions, interests, networking relationships and key factors about their businesses. Documentary information enabled the researcher to cross-check information collected during the interview as well, to ensure accuracy in writing up the research.

### **3.8 Analysing the Data**

Thematic analysis has been used to analyse the empirical data that was collected. Ryan and Bernard suggest that thematic analysis involves, “(1) discovering themes and subthemes; (2) winnowing themes to a manageable few (i.e. deciding which themes are important in any project; (3) building hierarchies of themes code books; and (4) linking themes to theoretical models” (2003: 85). Ritchie, Spencer and O’Connor (2003) outline advice on how to identify themes. They suggest that, “A thorough review of the range and depth of the data is an essential starting point to analysis. Such a review is likely to yield a long list of what appear to be important themes and concepts within the data” (Ritchie, Spencer and O’Connor, 2003: 222). Braun and Clarke (2006) outline a practical approach to thematic analysis in qualitative

psychology, but with some useful lessons for qualitative sociology as well. They suggest that thematic analysis involves a number of decisions which should be taken at various stages of the research process, some before data collection occurs. Importantly for a study with a relatively small qualitative sample, they assert that while often themes will be reported a number of times in the data, the more times a theme is reported does not in itself necessarily make it more important than less repeated themes. The ‘keyness’ of a theme is dependent on its significance to answering the research question rather than simple quantifiable indicators (Braun and Clark, 2006). Somewhat contrastingly, however, Ryan and Bernard (2003) suggest that one way of identifying themes involves looking for such features in the text as “repetitions: topics that recur again and again”.

As explained above, the initial draft of the interview guide was developed using human capital and entrepreneurship literature. Clearly this influenced the interview process and the data produced. However, all the interviews were conducted flexibly to allow the participants’ subjective understanding to be presented clearly. It was important that the analysis of the data did not just impose the researcher’s analytical framework and understanding on the data. The advice of Smith and Osborn (2003) was used, since they describe in detail the procedures that may be carried out on text in order to identify themes. This form of analysis “attempts to explore personal experience and is concerned with an individual’s personal perception or account of an object or event” (Smith and Osborn, 2003). Smith and Osborn’s (2003) advice provided a consistent means to analyse the interview data, and allowed participants views to directly inform the themes and sub-themes used in this study. It is a paper and pen method and so the researcher did not use computing technology in the analysis of transcripts.

Following the advice of Smith and Osborn (2003), each interview transcript was analysed individually, and the analysis was completed before starting to analyse the next interview. Each transcript was first read twice and notes were made in the left margin to record topics, views and ideas from participants, and to links, connections and “preliminary interpretations” (Smith and Osborn, 2003: 67) from the researcher. The transcript was then read again and more notes were made in the right hand margin “to document emerging theme titles” (Smith and Osborn, 2003: 68). The method made sure that those themes could be clearly related back to the interview data. The themes in the interview were listed chronologically, as they occurred in the transcript, and then clustered to pick out the linkages between them. A table of themes was then produced setting out ‘superordinate themes’. The themes identified in the

early interviews were used to further enhance the interview guide. During the interview process and the analysis, the researcher was aware of the need to be alert for new themes in the interview transcripts. This can be seen through the emerging of new themes not originally identified from the literature review (e.g. informal ventures, and the use of hobbies and interests in opportunity identification).

### **3.9 Reliability and Validity**

Inevitably in qualitative research there will be a somewhat different interview created by the interviewer and each interviewee. By allowing each interviewee to lead the interview at times into areas that interest them most and are important to their entrepreneurial career, then a unique interaction between interviewee and interviewer is being created that cannot be precisely repeated. Nevertheless, Easterby-Smith et al suggest that from a qualitative position reliability may involve asking, “Will similar observations be reached by other researchers?” (2002: 53). By setting out in the methodology how the research has been conducted and setting out the results in detail in the findings chapters, future researchers can conduct similar research studies to see if they do indeed make similar observations. The method of analysing the text is also set out clearly above, so it can be understood how the researcher has developed an analysis of the raw data in generating themes. Semi-structured interviewing ensured that within this particular research study certain comparable data were collected to achieve internal reliability.

Researchers from all perspectives are generally concerned to ensure that their findings stand up to some level of outside scrutiny (Easterby-Smith et al, 2002). Easterby-Smith et al (2002:53) argue that whereas a positivist perspective to validity would ask, “Do the measures correspond closely to reality?”, an interpretive perspective may instead ask, “Have a sufficient number of perspectives been included?”. This is because from an interpretive perspective different people are seen to hold different perspectives, and facts depend on the perspective of the observer. In this study, as has been outlined above, 21 interviews were conducted, and interviewing continued until no new significant findings about human capital were observed during additional interviews. Participants were selected to include a broad range of different perspectives on high performing young entrepreneurship (e.g. in terms of participants’ educational backgrounds). Curran and Blackburn (2001) argue that it is important in building a valid research project to distinguish between the viewpoints of the

participants and the researcher's own viewpoint on the data collected. For this reason, Chapters 4 and 5 focus largely on reporting directly the perspectives of the participants on their human capital, while Chapter 6 (the discussion) provides the researcher's own interpretation of the data.

### **3.10 Conclusion**

This chapter has set out the thesis research questions which focus on young entrepreneurs' human capital development, and how they use their human capital to build their businesses. To answer the questions, the study takes an interpretative position to better understand the nature of human capital factors previously investigated in quantitative human capital studies. The main research instrument used to collect data is the semi-structured interview, to allow participants to give their subjective understandings of their development, while ensuring that the study included an analysis of the key human capital factors identified in previous entrepreneurship studies. Documentary evidence has also been used to supplement the semi-structured interviews, and has proved particularly useful in preparing thoroughly for the interviews with the young entrepreneurs and cross-checking data collected in the interviews. As Berglund has argued, "Such [interpretivist] investigations do not allow for causal prediction and control of behaviours, but can complement more quantitatively oriented findings and thereby permit more thoughtful actions among entrepreneurs as well as policy-makers, researchers, teachers, venture capitalists and incubator managers" (2007: 89).

## CHAPTER 4: PRE-START-UP HUMAN CAPITAL DEVELOPMENT

This chapter – the first of two results chapters - presents the findings about the young entrepreneurs' human capital development prior to starting their first main ventures. They usually began to develop human capital useful to building their first businesses long before they actually started them. Families were found to provide relevant human capital development to nearly all participants, though to varying degrees and in different ways. The educational and work experiences of the participants were very different, both in terms of quality and quantity. Two terms that will be used frequently in the findings are informal ventures and first main ventures (or first businesses), and it is useful to distinguish here between them. This study introduces the concept of informal ventures pursued by young people between the ages of 8 and 17. These informal ventures were run part-time by the young entrepreneurs while still at school. They were small scale, often *ad hoc*, and were not formal legal entities (e.g. a primary school child bulk buying sweets to sell to classmates at a profit, or a teenager designing websites for local businesses). They are fully described in the 'Informal Ventures' section below, and have not been addressed in the existing human capital or young entrepreneurship literature. By contrast, first main ventures were the first formal businesses set up by the entrepreneurs which enabled them to generate a turnover above £1million and/or to raise external investment. These first main ventures were started between the ages of 15 and 26 by participants in this study.

There are certain patterns in the data that are useful to understand before reading the detailed results. Figure 4.1 on the following page illustrates the typical influences and human capital stocks developed by young people starting businesses at different ages in this research. The three pathways are intended to show the general patterns of pre-start-up human capital associated with starting a business at a particular age and with certain types of pre-start-up experience. However, there are some slightly outlying participants classified into each pathway whose experience may not mirror the majority of that pathway's participants on every criterion, but who fit overall into that pathway better than another.

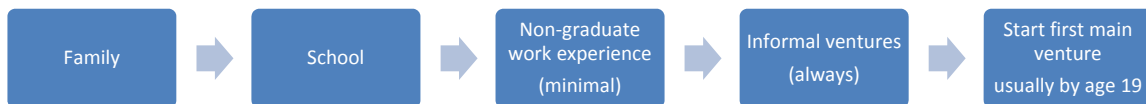
Six participants in this study (*Pathway 1*) started their businesses with only a GCSE or A-level standard of education. They started their businesses between 15 and 22, with all but one starting by age 19. They had all pursued informal ventures but usually had only low-level work experience.

Eight participants (*Pathway 2*) went to university, usually starting their business while at university or shortly afterwards. Two of these participants had started their first main ventures while still at school, but one of them quit university after his second year. They often had greater work experience than Pathway 1 participants, but usually still at a relatively low-level. They did not gain graduate work experience. They were a little less likely to have run informal ventures as teenagers than Pathway 1 participants. They started their businesses between ages 20 and 22.

Seven participants (*Pathway 3*) started their business after going to university *and* gaining graduate work experience. They all had higher level work experience in professional roles with greater responsibility (e.g. on graduate recruitment schemes) before starting their first main ventures. It was less common for these older starters to have pursued informal ventures as teenagers than either Pathway 1 or 2 participants, but they were more likely to report having their work experience provide them with benefits than those who had started their businesses younger. They started their businesses between ages 23 and 26.

**Figure 4.1: Pre-Start-Up Human Capital, Three Pathways to Start-Up**

*Pathway 1*



*Pathway 2*



*Pathway 3*

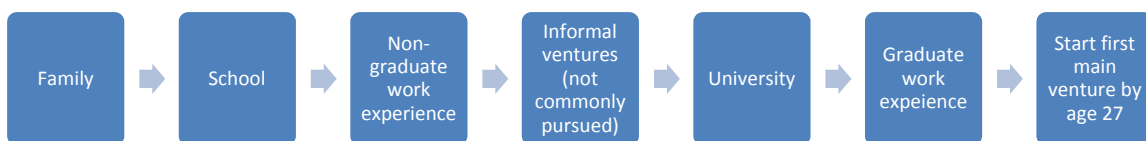


Table 4.1 presents information about the pre-start-up experience of each participant, with each participant being given a pseudonym. Each participant's pathway classification is shown. At the beginning of the next chapter, Table 5.1 presents information about each participant's venture creation activities.

**Table 4.1: Participant Information on Pre-Start-Up Human Capital Factors**

Name	Pathway	Self-employed family	Informal ventures	Non-graduate work experience	University attended	Graduate work experience	Age starting first main venture
Peter	1	Yes	Yes	Yes	No	No	16
Richard	1	Yes	Yes	Yes	No	No	18
Alistair	1	Yes	Yes	Yes	No	No	16
Charles	1	No	Yes	Yes	No	No	19
Adam	1	No	Yes	Yes	No	No	15
John	1	No	Yes	Yes	No	No	22
Jim	2	No	Yes	Yes	Yes	No	22
Matthew	2	No	Yes	Yes	Yes (quit)	No	15
Gavin	2	No	Yes	Yes	Yes	No	21
Vicky	2	No	Yes	Yes	Yes	No	19
Luke	2	Yes	No	Yes	Yes	No	20
Michael	2	Yes	Yes	Yes	Yes	No	22
Joel	2	Yes	Yes	Yes	Yes	No	22
Daniel	2	No	Yes	Yes	Yes	No	16
Hamish	3	Yes	No	Yes	Yes	Yes	25
Thomas	3	No	Yes	Yes	Yes	Yes	23
Stephen	3	Yes	No	Yes	Yes	Yes	23
Emily	3	Yes	No	Yes	Yes	Yes	26
Robert	3	No	No	No	Yes	Yes	24
Timothy	3	No	Yes	Yes	Yes	Yes	26
Alex	3	No	No	Yes	Yes	Yes	26

#### 4.1 Family

The findings suggest that an entrepreneurial parent was able to influence and support a young entrepreneur in more ways than a non-entrepreneurial parent. Nine out of 21 participants recalled having a parent in a self-employed role, with seven of these young entrepreneurs specifically defining that parent as entrepreneurial. Two out of the remaining 12 participants recalled having another relative who was entrepreneurial, and influential in their decision to become an entrepreneur. While non-entrepreneurial parents were not able to provide an

entrepreneurial role model to the young entrepreneur growing up, in some cases they were able to provide relevant technical advice or skills based on their professional expertise to a young entrepreneur starting a business.

While the young entrepreneurs' parental incomes would appear to be varied given the differences in parental occupations, it is notable that all young entrepreneurs had at least one parent pursuing a skilled or professional occupation, with no participant having both parents in a semi-skilled or unskilled position. No young entrepreneurs described themselves as experiencing poverty growing up, but a minority did say their family upbringing had been financially 'not well off'. The data suggest that families have had three types of influence in the young entrepreneurs' development: providing inspiration and role modelling; advice about their career decision; and, provision of resources.

#### **4.1.1 Inspiration and Role Modelling**

Participants with an entrepreneurial family member were often able to describe quite vividly how such a person could provide an inspiration or a role model to an entrepreneur growing up. A role model can be described as, "A significant other upon which an individual patterns his or her behaviour in a particular social role.... Role-models tend to provide ideals for a particular role only, rather than a pattern to be emulated across all constituent roles of an individual's life and self" (Marshall. 1998: 572). Role modeling and the development of values appropriate to entrepreneurship takes place during the family socialization process from childhood until young adulthood. It can be regarded as a more general and longer term process than the more specific advice parents may give their children about choosing a career. Entrepreneurial parents and other entrepreneurial family members were attributed with providing an inspiration in some cases for the young entrepreneurs' career paths.

The advantage of having an entrepreneurial parent was particularly evident in providing a young entrepreneur with an appropriate professional role model growing up, although all participants set up independent businesses rather than taking on the family business. As Hamish pointed out, he gained an appreciation of the responsibility involved in running a business by vicariously observing his father running the family business, and partly through hands on work experience with his father.



*My dad has got his own business, and while I was growing up, I'd always worked in that. On Saturdays and in the evenings. So I kind of knew what it was like to run your own business... Yeah it kind of gave me an indication of the responsibility. And I suppose growing up with a father who was always busy and under pressure kind of gave me an indication of the responsibility of working for yourself. (Hamish).*

Emily said she had been inspired when growing up by watching her father who had entrepreneurial experience in the fashion industry. Joel also described how his father was, “absolutely my inspiration”. His father encouraged within him an “entrepreneurial spirit”. He also said that his father had “never given me a penny and I never wanted a penny”, suggesting that Joel believed being taught self-responsibility was an important value for a young entrepreneur.

*He had done both being employed and self-employed, but the most successful part of his career was when he had run his own business and shops and stuff so I think definitely I grew up with someone doing something that wasn't very traditional and quite entrepreneurial. So that was a big inspiration for me. (Emily)*

*He was absolutely my inspiration, still is, in terms of business. He was [an entrepreneur] from when he was in his early 20s. He had an apprenticeship. And he's never given me a penny, and I never wanted a penny. But what he did instil in me was just that entrepreneurial spirit I suppose, of knowing. I've got this in my mind thanks to him about how he thinks about business. (Joel)*

Two of the young founders did not have entrepreneurial parents, but did have other family members who had provided them with inspiration. Luke was clear in asserting which of his family members he defined as entrepreneurial and which he did not. His entrepreneurial role model had been his grandfather rather than his parents. Stephen described how his great uncle (“a typical self made man”) had inspired him growing up as he had set up a significant franchising business in the food sector.

*My mum definitely wasn't an entrepreneur. My dad... I wouldn't describe him as an entrepreneur. My grandfather was an entrepreneur, though...He ended up getting into bricklaying, then building then property, and then hotels. And ended up making quite a lot of*

*money out of hotels and then retiring around 15 years ago. He was quite entrepreneurial in that sense. (Luke)*

*Initially my great uncle, my grandma's brother, he's got a bakery chain which he started about 25 years ago, and now they have a huge business which provides breads to the whole country. So a massive franchising business. He was a typical self made man, who came to the country with hardly anything in his pocket and started from scratch, and turned that into an empire. So he's obviously really wealthy. And to a boy that's quite inspiring. (Stephen)*

Some participants with no entrepreneurial parents or other entrepreneurial family member could not really see that their family had played any role in their development as young entrepreneurs. Michael and Adam clearly expressed this perspective. Michael said that while his father was self-employed he did not regard him as being entrepreneurial and he had not provided an entrepreneurial role model. Adam attributed his developing interest in entrepreneurship as a teenager as a reaction against friends and family suggesting there were limits to what he could achieve.

*What I hated from a really early age was friends and family saying I'd never be able to do that or I'd never be able to go there, or live that dream or do that hobby. I never wanted to be in the position where I thought I didn't have the means to do something. I always wanted to be in the position where I could live my dreams and do what I wanted to do in life. (Adam)*

While many of the participants in the study were grow up with entrepreneurial parents, participants whose parents were not entrepreneurial sometimes found inspiration as teenagers through more distant role models in their reading. All but one participant in this study could recall reading entrepreneurs' biographies at some point in their lives, with many doing so during adolescence. For example, Daniel, without an entrepreneurial family member, found inspiration through reading Richard Branson's biography. Similarly, Matthew, who also did not have any entrepreneurial family member, said that he had read "a lot of business stories", to "get an understanding of how that person operates".

*And I think when I was about 15/16, when I had my first job, I discovered Richard Branson who was a very popular figure in the media and an entrepreneur. I started reading about him. I bought his biography, 'Losing my Virginity', which I thought was absolutely fantastic. And this gave me even more enthusiasm to build a company in my lifetime. I'd always known*

*that this is what I wanted to do, but I guess that is the moment that kind of sealed it. I realised then that I didn't want to do anything else other than building companies. I remember I was quite fascinated with him at the time. (Daniel)*

*I read quite a lot of business stories. So I read the biography of Richard Branson. Things like that. I find it easier and more fun to read a story than a textbook. But also I kind of get an understanding of how that person operates and their experiences. (Matthew)*

Young entrepreneurs with entrepreneurial parents often recalled having access to an entrepreneurial role model while growing up, but where a parent was simply self-employed the young entrepreneur did not always believe they had provided a relevant role model or inspiration. Having an entrepreneurial parent was also inspirational to some of the young entrepreneurs, and encouraged the development of appropriate values for an entrepreneurial career during the socialisation process (e.g. an 'entrepreneurial spirit'). In two cases, where participants did not believe their parents were entrepreneurial, they found entrepreneurial inspiration in other family members (a great uncle and a grandfather). Sometimes participants without entrepreneurial family members could find inspiration through reading the biographies of famous entrepreneurs, an alternative source of inspiration before starting-up. In Chapter 5 it will be described how many participants also made use of mentors when starting-up and growing their businesses, a further source of inspiration and role modelling.

#### **4.1.2 Advice about Career Decision**

As well as a longer term socialization process within the family, the young entrepreneurs also recalled the nature of careers advice they had been given by their parents. However, parents rarely directly advised their offspring to become entrepreneurs. Only Charles said that he had had specific careers advice from a parent to become an entrepreneur, and his father was a lawyer not an entrepreneur. More often there was a strong encouragement by parents of qualities important to becoming an entrepreneur, such as ambition, achievement and self-confidence. Jim and Richard shared this common experience, recollecting that their parents had encouraged them to be ambitious and to pursue their own chosen career goals, rather than advising them specifically to be entrepreneurs.

*My mum always pushed us... She always wanted us to do well and make us believe in our dreams. I always wanted to set up a business. (Jim).*

*I think it wasn't really about us having a business but more about us doing something which interested us and just seeing how far you can take it. (Richard).*

Alistair described how his entrepreneurial father had indirectly influenced him to become an entrepreneur, as he had watched him running his business growing up. He said he thought he had become an entrepreneur as a result of acquiring aspects of his dad's personality, rather than because he had been advised by his father to become an entrepreneur.

*Not in the way that they pushed me or anything like that [to become an entrepreneur], but I think everyone picks up parts of their personalities from their parents whether they know it or not. So my dad ran a very small computer software business kind of all his life... So I guess those kind of things effectively transferred to our business... So there's no point your parents telling you what to do, but I don't think it's any coincidence [that I started a business too]. (Alistair)*

Parents, including non-entrepreneurial parents, were not commonly recalled as raising concerns about the young entrepreneurs' entrepreneurial career paths. Only three of the young entrepreneurs recalled their parents having strong concerns about their children beginning an entrepreneurial career. As might be anticipated, in one case concerns about an entrepreneurial career arose from a non-entrepreneurial parent's unfamiliarity with how such a career would work and produce a viable income (Gavin). It was Emily's entrepreneurial parent who raised the most serious reservations, however. This young entrepreneur's father said that the decision to follow the same career path as himself could be described as "mad". He drew his daughter's attention to some of the potential pitfalls to avoid (e.g. not taking bad advice).

*My dad has given me much advice, but like 'don't do it, you're mad'. He's one of these kind of people who've been through the mill a bit and done it all and were kind of very excited about it when they did it and then maybe things kind of changed a lot as they got older...He gave a lot of advice in terms of who not to listen to and to kind of be strong and don't take any shit and that kind of thing, but be very kind of wary of the pitfalls of doing something on your own. (Emily).*

It is interesting that the only participant in the study who said he was explicitly advised to become an entrepreneur received this advice from a non-entrepreneurial parent. So, while

entrepreneurial parents may provide appropriate role models and values to their children, there was no evidence that they explicitly advised their children to follow the same career path that they had taken. Parents instead encouraged ambition more broadly and an achievement-orientation in their children.

#### **4.1.3 Provision of Resources**

The intangible and tangible resources provided by parents to their children when starting their businesses varied widely, but nearly all participants did receive some resources. Intangible resources (i.e. resources without a physical presence) were offered by parents from a range of relevant professional backgrounds, not only entrepreneurial parents. All entrepreneurial parents did offer some intangible resources, in particular valuable entrepreneurial advice.

Intangible support to the young entrepreneurs took the form of business and/or technical advice, the provision of specific business services to firms, and access to networks. Some parents were able to offer specific business advice to their children during the starting up and less frequently the growth stages of the young entrepreneurs' businesses. As the level of sophistication of the young entrepreneurs' businesses developed over time, however, they often needed to obtain more specialist advice than their parents could offer (e.g. requiring advice more specifically related to their sector). It was evident that the provision of advice by parents might be especially valuable at the beginning of the business when the youngest starters, in particular, lacked networks to seek advice from. However, over time, even if the participants continued to seek parental advice they also would get advice from a number of contacts from outside the family as well. Hamish was typical in this sense, suggesting how his entrepreneurial father, as well as his business partner's entrepreneurial father, were able to provide finance and entrepreneurial advice. The fathers could also act as "sounding boards", which suggested they could help with talking through business problems and issues beyond simply offering specific functional advice (e.g. on finance or opportunity recognition). He notes, however, by the time of the interview his business was requiring more specialist advice than their fathers could offer and so they were looking for a non-executive director to fulfil this need. Robert found his father an important advisor during the growth as well as the start-up of his business, because he held a senior professional role in the same sector that Robert established his own business.

*My dad is quite experienced in the finance side of things and [business partner's name's] dad has set up a few companies (all funded companies so not quite the same)... we've been able to get advice [from our fathers on finance]. But we're now at this stage looking to build a non-executive board to help us grow to the next stage. (Hamish)*

*My father has been excellent as someone to lean on, to run things past. He's been very good to me, supportive. (Robert)*

In three cases, participants described how they had received specific business services from parents that they may otherwise have had to pay for. This included providing book-keeping and accounting services. In each of these cases, the provision of the service happened through both the start-up and growth stages of the businesses, and in two cases was ongoing at the time of interview.

Access to parental networks was not commonly recalled by the young entrepreneurs, with only one specific recollection, offered by Charles. He required investment at the start-up stage of his business and described how his family had provided a connection to his first investor.

*[My first investor] was a family connection, someone who knows someone who knows someone. And I think that part of it is being given a sufficiently warm introduction that you can go with some confidence and these people aren't just going to laugh at you. (Charles)*

There was less provision of tangible resources, in particular financial support, by parents to their children in starting their businesses. Only three participants recalled receiving direct financial support from their families in the start-up process, although more received tangible resources in-kind.

In the Finance section in Chapter 5, it will be described how the participants were often able to raise finance through business angels, venture capital or a combination of the two. The development of the internet economy meant that while the young entrepreneurs sometimes required investment to grow, significant seed capital was often not required at the start-up stage. The combination of these two circumstances perhaps made the provision of family investment in the young entrepreneurs' businesses less important than it might have been twenty years ago (see Macdonald and Coffield, 1991). Gavin recalled how he used a birthday present as start-up capital for his business. While the value of the gift may appear

small, it is notable that Gavin said he did not have a prosperous upbringing, hence its value may have seemed more significant than in better-off families.

*I had £1000 for my twenty first to go travelling around the world...So I had my idea for my business and asked my parents if I could spend it on stuff for my business instead like insurance and marketing material, sports equipment so I could set up my business. (Gavin).*

There was greater evidence that parents may have provided tangible resources to their children in the form of help in-kind to establish their businesses. This occurred particularly for those who started their first main venture while still at school, since they benefited from free bed and board and often from access to computing resources.

No participant said they had received neither tangible nor intangible resources from their parents, and half said they had received some combination of both. The case below demonstrated how a father, who was an IT manager, was able to offer both the provision of a tangible resource (the provision of computing equipment and the internet at home when many people did not have it) and an intangible resource (the provision of training to use the internet, and IT skills more broadly).

*My dad worked in IT for an insurance company. He was Head of IT. So he was more of a programmer, then he became a technical manager. So yeah definitely through him I got early exposure to the internet. I wouldn't say so much the entrepreneurial thing. But definitely with the internet thing, he was very influential in teaching me how to use that. I mean part of the thing over the last ten years is, that it's become much easier to become an entrepreneur because of the internet. (Matthew).*

The provision of intangible resources was often valuable at the start-up stage to those young entrepreneurs whose parents could provide relevant entrepreneurial advice or business services. However, while parents usually provided free bed and board to participants starting their business while still at school, the provision of tangible resources by parents usually did not stretch to making a significant financial investment in the start-up.

In summary, the section on family has demonstrated that family members, most commonly parents, had an impact on respondents throughout childhood and adolescence. Entrepreneurial parents can offer role modeling of relevant behaviours to young entrepreneurs as they grow up, although non-entrepreneurial parents may also sometimes

inculcate values in their children relevant to starting a business. While over a third of participants in this study had an entrepreneurial parent, it was clear that their impact on young entrepreneurs growing up happened over the long term, and there was no evidence that entrepreneurial parents explicitly gave careers advice to their children to follow the same career. Sometimes parents had a direct impact on the young entrepreneurs' activities, in particular through the provision of advice or business services during the start-up of the young entrepreneur's business. The data also show that where a young entrepreneur did not have an entrepreneurial parent, a non-parental family member may also act as an influential entrepreneurial role model.

## **4.2 School**

Whereas a number of young entrepreneurs attributed growing up with entrepreneurial family members as an inspiration for becoming an entrepreneur, no participant said that school had provide inspiration to pursue an entrepreneurial career. So, the value of school in preparing young entrepreneurs was seen in terms of developing relevant knowledge and skills that could be applied to entrepreneurship, rather than schools being institutions where an 'entrepreneurial spirit' might be developed. The answers about schooling related to, firstly, the subjects that they studied, and, secondly, whether they thought they had gained any useful skills or knowledge through their studies.

The respondents tended to suggest that the last stage of formal education they completed was the most significant to starting their business in terms of knowledge and skills gained (whether this be GCSEs, A-levels or degree). So, they tended to remember fewer benefits from the earlier stages of education if they had studied up to degree level. It is interesting, however, that the two participants who only studied up to GCSE level before leaving education (Adam and John) actually believed that having a good basic education, particularly in English and Maths, was important to starting a business. By contrast no participant who had a degree, even where they thought this may have been somewhat useful, said that if they had not done their degree they could not have started their business.

### **4.2.1 Compulsory Schooling**

Many generic skills important to the entrepreneur would have been learned at school (e.g. communication skills with peers, literacy and numeracy), and all but two of the young



entrepreneurs participated in education up to at least A-level standard. However, no participant who studied to A-levels or beyond identified the benefits of a general compulsory education to becoming an entrepreneur. By contrast, the two participants who only studied up to GCSE level before starting their businesses both believed that particular elements of that education had been important to them. John said that in his industry having a strong grounding in English and Maths had been very useful to starting his business. He did not believe that studying A-levels was a necessary condition, however, to starting his business.

*I was good at Maths and good at English [GCSEs], and that has given me an advantage I would say, because I can write good proposals, I could work out [financial] projections for the business as well. So definitely having a basic GCSE level of education is important, but I don't think you need any more than that... I would definitely say to work hard to understand those things well, to work hard at your GCSEs if you want to start a business. If you think you've got the aptitude for it, then you start early, definitely. (John)*

The decision about what level of education was a sufficient investment to start a business was a common theme amongst participants. Adam indicated that he made a rational choice that he could test his entrepreneurial skills at age 16 without needing to do A-levels or a degree. However, he also knew that, even if his first main venture failed the risk was not great, as he could subsequently make the decision to do further education.

*I think that I was trying to justify it [to my parents] by saying that I could do A-levels and go to university and either end up without a job or I could end up in the position I am in now, thinking about setting up a business. So rather than do it now, I thought if I failed then I could go to college and university. But if I succeeded, then I had done so at a young age. So just, it was young enough for me, at 16. I wasn't actually 16 until I'd been in business for over a month. So I was young enough that if I either succeeded or failed I could always try again or just do something else. So it wasn't a major issue. So I think that gave them a level of comfort, but I think they were relatively concerned. (Adam)*

So, the two participants who left school after GCSEs did not regard education as irrelevant to their careers, and John recalled the benefits he had gained from a strong basic grounding in English and Maths at school. However, these two participants believed that they had made a rational decision, that they had a reasonable opportunity of establishing their first main ventures based on their existing levels of education.

### 4.2.2 A-Level Education

A-levels were seen as useful where the content was perceived in some way as directly relevant to starting a business, with four participants having A-levels as their highest level of qualification. The subjects seen as most helpful were Business Studies, Economics and Psychology, while other A-level subjects were generally seen as less specifically valuable. Understanding the psychology of selling was the key benefit identified by the two participants who studied Psychology A-level and a further participant who studied it to degree level (see also 'University' section of findings about the benefits of studying Psychology).

Those who did not go to university were especially likely to have chosen either A-level Business Studies or Economics, indicating at least a nascent interest in understanding business issues and markets by the age of 16. Alistair and Matthew indicated that these A-levels can provide young entrepreneurs with basic concepts and a framework which can be useful to understanding some of the issues faced by a start-up business.

*I think probably the influence of family and my own desire to do stuff far outweighed school. So anyway you know things like Economics [A-level] obviously [were helpful]. I think probably at the time I thought it was a bit abstract but actually quite a lot of those pretty simple principles that you learn at A-level, I look back now it's probably pretty good that I learned some of those things. (Alistair)*

*So I found Business A-level actually quite valuable because it introduced the business concepts in a formal way, complemented by learning about them informally [running my business at the same time]. (Matthew).*

The extra-curricular Young Enterprise scheme, undertaken during A-levels, was only participated in by two young entrepreneurs, with neither rating it highly as an entrepreneurial inspiration or for skills development. By contrast, participants who ran their own informal ventures as teenagers, independently of this scheme, usually did think the experience was significant in their development as entrepreneurs (see the 'Informal Ventures' section below).

A-level standard education was seen by participants as being helpful in grasping basic knowledge about vocational subjects relevant to starting a business such as business,

economics and psychology. However, there was no evidence that practical entrepreneurial skills had been developed through studying at this level.

## **4.3 University**

### **4.3.1 Decision to Go to University**

Fifteen out of 21 participants went to university, while a fifteenth participant went to drama school rather than university. Of those who decided to go to university, no participant started earlier than 1998, and all had left by 2008. Eight participants went to Russell Group universities, while two went to 1994 Group universities and four went to new universities.

Those entrepreneurs who did not go to university, usually did so as a result of a clear preference to set up a business straight away, rather than because they were unable to get a university place. Thus they usually argued that they had made a rational decision about the best use of their time. In fact, two of the candidates who chose not to go to university turned down places at Oxbridge, with one taking a gap year that never ended to start his business. Only one participant who did not go to go to university said that he would have struggled to get into a university of his choice on the basis of his A-level results, but he still believed he would have got a university place at an institution he was less keen on. Participants who had started their first main businesses during school or shortly after said they were happy with the decision not to go to university. There was a general belief amongst non-attendees that they had gained greater benefit for their entrepreneurial development by pursuing their first main venture full time as opposed to the benefits they would have gained from going to university. Alistair believed that he was able to develop a range of skills and knowledge by pursuing his first main venture full-time on leaving secondary school, rather than going to university. This included developing his business networks, gaining hands-on entrepreneurial experience (learning by doing), and visiting new places which may have opened his eyes to new opportunities. Neither he, nor any other participant who chose not to go to university, said that the lack of a degree had inhibited them in any way in starting and growing their business. Peter started his business at 16, and did apply for university. However, during his gap year he realized he would prefer to continue to grow his business rather than take up the place he had been offered at Oxford University.

*And I think for me kind of the experiences I got at that stage, kind of the people I was meeting and the work trips I was getting to go on, you know, that kind of aspect of things, was as valuable, although different, to the experience I would have got going to university. And certainly three or four years after A-levels, when I would have been finishing university, I was a long way ahead of where I otherwise would have been. (Alistair)*

*Yes I started the business at 16 and did A-levels. I got a place at Oxford University, but then took a gap year that never ended. (Peter)*

### **4.3.2 Skills and Knowledge Acquired at University**

In this research, three participants studied Computer Science, one studied Sports Management, three studied Business Studies, one studied Education and Psychology, one studied Psychology, two studied Law, one studied Mathematics, one studied Philosophy and Politics and one studied Spanish. Of these fourteen, only four participants saw their degree studies as having no relevance to starting their business, while the remaining ten described their degree as being helpful to some extent. While they may have found useful skills and knowledge for starting their businesses from their degree courses, no participant said that what they studied at university had provided the inspiration to start-up their business. Participants who had studied business or a subject that provided direct technical knowledge of value to starting up their business (e.g. Computer Science or Law) tended to be more positive about the content of their university education. The value of a degree was most commonly judged instrumentally on the basis of its direct usefulness to an entrepreneurial career.

Business Studies degrees were valued for the relevant knowledge that they could offer for starting a business, particularly subjects such as accounting, finance and operations management. The vocational nature of these business disciplines was believed to provide directly relevant knowledge for running a business, though it was usually thought possible to learn them without having done a business degree. The growth in specific entrepreneurship education modules and programmes has been fairly recent at most universities, with the majority of participants attending university before these had become widespread (e.g. before the establishing of the National Council for Graduate Entrepreneurship in 2004). The only interviewee who had experienced significant university level entrepreneurship education did find it of some value in terms of knowledge and skills development (e.g. how to write a

business plan), but he recalled elsewhere in the interview that this had not been his initial inspiration to start a business.

*I think the entrepreneurship modules did help... Writing a business plan, which is always good when you want to go to the banks. Yeah, at the time I didn't think it would [help]... But I think business has moved on a lot now and is a lot more sophisticated. (Jim)*

Matthew studied Business at A-level and degree level, one of only two participants to start their first main venture at school but still go to university. He believed A-level studies had been helpful for knowledge accumulation about business, whereas degree level Business Studies had provided deeper understanding. Nevertheless it seemed to be the learning which he valued most from his university studies, rather than the formal qualification.

*So I was running my businesses [part-time] during my A-levels and then I did go to university [to study Business], yes...A-levels are much more about knowledge, whereas I found university much more about understanding. I was there for just over 2 years... I sold the first company, [Business Name], in April 2007. And so once that happened, I'd spent my first and second year thinking about what my next business would be... And I quit university at the start of my third year, in November 2007, because I had the next thing I was ready to do. (Matthew)*

While the Pathway 1 participants had usually developed programming skills at home independently or with the help of parents with an IT background, Timothy did not start his business until after leaving university and gaining some work experience. He said that studying Computer Science at university had helped him develop appropriate technical IT skills to support his internet start-up.

*Doing computing gave me the confidence to think I could build a website, build a technology platform, and I think the firms that I've been interested in have been centred around technology. I wouldn't have very much confidence, for example, starting a restaurant or a travel agency, or any of these sort of things I don't know very much about. (Timothy)*

Studying Law did appear to have been helpful to the two participants who had taken this degree subject (Vicky and Michael). While the content was considered to be more detailed than was necessary to start a business, nevertheless having a grasp of legal frameworks and principles was regarded as an advantage. Studying Company Law, Commercial Law and

Contract Law were examples of the most helpful content a law degree could provide to entrepreneurs. More broadly, it was seen to develop discipline in how to think and write clearly and rationally. Somewhat similarly, Luke said that studying Mathematics had enabled him to problem solve, by thinking in a structured and disciplined way, which he said had been helpful to his entrepreneurial career.

The idea of higher education helping the participant to learn how to make a good case in business was a skill that Alex recalled gaining from studying Philosophy and Politics.

*There was a lot of arguing and thought construction and research involved in that particular course. That helped me construct arguments. I've used the construction of arguments in helping me write things for my business. I can write a business story. I can construct my position relatively well. (Alex)*

The vocational aspects of Joel's Psychology degree were recalled as being practically helpful in developing his customer service and sales skills. The study of the psychology of selling enabled him to understand how to 'read' prospects when he was selling.

*Because I did a Psychology degree, we did a lot about the psychology of sales, and I suppose just being able to read people's reactions to something, get an idea from their tone, what kind of person they are [has been helpful to running my business]. (Joel)*

The data showed that participants often adopted a rather instrumental approach to university education. This meant that, if they believed they had not developed skills and knowledge in their studies that were directly relevant to entrepreneurship, then they sometimes saw university as not being helpful. Gavin and Robert could not see that their degree courses had been helpful in establishing their businesses.

*I know certainly with my university degree, I can't see any way that that has helped me. I think I'd be doing exactly the same thing whether I'd done that degree or not... I didn't really used to waste my time going to lectures. I just used to learn parrot fashion to pass exam papers using the past exam papers. (Gavin)*

*I studied Spanish at [Russell Group university X]. Has it helped me? No, not in the slightest. Did I enjoy it? At the time it was quite fun. I enjoyed the experience of going to university... I've thought about this quite a lot and I think I'm now actually quite anti-university. And I*

*wouldn't want our children to go to university unless they needed a very specific skillset (i.e. they wanted to be a doctor or an accountant). (Robert)*

Daniel was the only entrepreneur to complete university having already started his business while still at school. (Matthew dropped out after the second year, having also started his business while still at school.) Although Daniel had studied a relevant degree to his web development business (Computer Science), he found university to have played no tangible role in his entrepreneurial development.

*Because I was running the company, university was quite light for me in terms of attendance... So I can't really say it had any impact of any kind on what I've been doing. It's good to always have a degree I guess, but it hasn't really been helpful to me at all. (Daniel)*

### **4.3.3 University Extra-Curricular Activities**

The most positive views on the role of educational institutions in encouraging entrepreneurship actually related to the role of extra-curricular activities, such as student entrepreneurship clubs and networks, in particular at prestigious universities. However, only two participants had participated in such clubs, so it is difficult to draw significant conclusions from this. With the general growth in the importance placed on entrepreneurship and enterprise amongst university managers and policy makers, there has been an expansion of extra-curricular entrepreneurship clubs at universities, but this provision was generally not in place in time for participants in this study. The benefits from attending student entrepreneurship clubs, Matthew and Luke said, included gaining opportunities to meet more experienced entrepreneurs and potential investors (e.g. invited speakers and through networking events the clubs organized). Luke believed that attending Oxford Entrepreneurs was very influential on his decision to start his own business, and discussed how events they organized such as Silicon Valley Comes to Oxford can be inspirational to students.

*I'd... been involved with the Oxford Entrepreneurs student society... The other thing I think that was influential was something we have at Oxford called Silicon Valley Comes to Oxford every year... And they bring over 15 or so kind of Silicon Valley entrepreneurs, people like Linked In, Paypal, Twitter founders. I think that was inspirational meeting those guys. (Luke)*

Participants usually judged the value of their school and university education instrumentally on the basis of its usefulness to their entrepreneurial career, which in some ways is unsurprising given the topic of the interviews. Nevertheless, it is notable that no school or university experiences appeared to offer the inspiration to start a business, whereas other human capital factors such as family background and running informal ventures did. Participants who left full-time education in order to start their first main venture presented the decision as a rational, considered one, and generally believed they had developed their human capital more quickly and efficiently through gaining hands-on entrepreneurial experience than if they had stayed in full-time education. While education might not have directly inspired business start-up, however, many respondents did recall relevant knowledge and skills that they had developed during school and university for pursuing an entrepreneurial career.

While participants did not explicitly identify these benefits of being university educated, the researcher has noted two further potential benefits. Firstly, seven of the participants who went to university also subsequently undertook graduate employment before they started their business (see the 'Experience of graduate level work' section below). This usually involved entering graduate recruitment schemes, so gaining access to a relatively high level of work experience at a young age that would have been difficult to access without having a degree. While Pathway 3 participants did not directly make the link that having graduate level work experience was a consequence of their degree, it will be seen below that they often recalled gaining some important work experience to help start their business after graduation. Secondly, it will be shown in the 'Finance' section of Chapter 5 how there was a trend amongst graduates of more commonly gaining venture capital funding, while non-graduates were more likely to gain business angel funding or grow their businesses organically. The non-graduates themselves, however, did not suggest that they had lost venture capital investment opportunities through not studying to degree level.

## **4.4 Informal Ventures**

### **4.4.1 Defining Informal Ventures**

Human capital studies relatively consistently find a strong link between having previous entrepreneurial experience and the business performance of an entrepreneur's current venture (Ucbasaran et al, 2006; Gimeno et al. 1997). Given the age of the young entrepreneurs in this



study (eight starting their first main venture before age 20, and all by age 26), most of the entrepreneurs had only started one main venture, and it was this first main venture that was the key focus of each interview. However, what is striking is that 15 out of 21 participants also took part in informal ventures as teenagers before starting their first main ventures. These informal ventures were generally quite small scale, often *ad hoc*, and were not usually formal legal entities. The ventures ranged in scale and complexity from selling products in school or sixth form college (e.g. sweets or designer clothes) to setting up fee-entry computer gaming events. The ventures recorded generally enabled the participants to make a profit, although a minority were initially established as a result of a hobby rather than for purely commercial reasons. Six participants subsequently set up their first main venture in the same sector as their informal venture while still at school. A third of the young entrepreneurs recalled setting up more than one informal venture.

Informal venturing was almost always rated as being more significant in developing entrepreneurial skills than school, and was frequently regarded as being an important starting point for a young entrepreneur's career. While all participants who set up their first main venture while at school recalled previously setting up an informal venture (Pathway 1 participants), informal venturing was much less common amongst participants who gained graduate work experience before starting their first main ventures (Pathway 3 participants). Thus informal venturing might be considered to have a strong association with starting first main ventures very young, so providing an alternative to more conventional business ownership or work experience usually gained after leaving school.

Most participants recalled being involved in informal venturing, although the ages at which they started, and the complexity of the enterprises, varied considerably. Jim said that he had sold sweets in the playground while still at primary school, although selling products to peers at high school was more common (e.g. Adam). By contrast, Gavin recalled running a more sophisticated informal venture selling designer clothes during the early part of his A-levels at college. These three participants all demonstrated early commercial awareness and saw informal ventures as a way of making money.

*When I was at primary school, I used to go to the next borough in London where you could buy push pops in bulk, and then sold them in the playground and made a killing. (Jim)*

*I was selling sweets in the playground from sort of 12/13, whilst trying to fund the computer. And once I had done that I was keen on making something that would be [a] career for the future. (Adam)*

*I guess I used to do stuff like I would flog designer clothes and stuff like that at [sixth form] college. I was doing things like I would find ways of selling my old toys and things like that when I was even younger. (Gavin)*

As with other young entrepreneurs who started their informal ventures on the basis of a personal interest, Alistair was initially motivated to start due to an interest in his hobby, but subsequently recognised there were commercial opportunities present in the sector. Elsewhere in his interview, he indicated that he had run three informal ventures in total as a young teenager, the third of which developed into his first formal main venture.

*I had a few I wouldn't call them money making ventures but entrepreneurial things when I was 13, 14. The reason we started [our first main venture in the computer gaming sector], me and my brother, was that we ran some Land Parties which are basically gaming events where people bring their computers together and play against each other in a physical location because this was pre-internet kind of being suitable for high speed gaming. I think I did the first one when I was 14. And people would pay and we would get sponsors and things like that. So that was kind of the lead up to [our first main venture]. (Alistair)*

These informal ventures provide an opportunity to practice and test entrepreneurial skills at relatively low levels of financial risk to the young entrepreneur. The young entrepreneur does not have to pay rent for a business premises. They also do not have to support themselves financially, let alone a family, on their profits, as older entrepreneurs have to do.

#### **4.4.2 Skills and Knowledge Gained through Informal Venturing**

As a number of the examples above suggested, informal ventures demonstrated an early development and testing of certain entrepreneurial skills (i.e. entrepreneurship-specific human capital). This included participants developing entrepreneurially in the crucial arts of opportunity recognition, opportunity pursuit and selling, but in some cases also learning elements of business planning, purchasing and negotiation. Informal ventures may not equip young entrepreneurs with all the knowledge and skills that more formalized adult

entrepreneurial experience would provide, but it does demonstrate both a confidence to begin learning particular entrepreneurial skills at a young age and to apply these in practice.

Those participants who took part in informal ventures were able to identify skills they had learned that proved useful to them as entrepreneurs in their first main ventures. Charles did so particularly clearly, identifying three skills informal venturing had helped him learn. He described how informal venturing allowed him to develop skills in opportunity identification and pursuit, interpersonal skills, and marketing (e.g. pitching).

*And then through my teenage years I ran a number of internet businesses. Nothing of any great size. But you learn a lot of the soft stuff, how to relate to people, how to deal with clients, how to pitch for work, all those kind of things. (Charles)*

In six cases, running an informal venture led a young entrepreneur to eventually set up their first main venture in the same sector as the informal venture, though not necessarily doing exactly the same thing. Running an informal venture for these young entrepreneurs offered not simply relevant entrepreneurial and technical skills development, but also an opportunity to build up their knowledge of their industry. Richard developed a high level of skill in computer programming, firstly as an interest, then as an informal venture, which was eventually used to start his first main venture (a web development agency). Thus the young entrepreneur's hobby and informal venture enabled him to develop appropriate venture-specific human capital for starting his first main venture (i.e. informal venturing enabled him to develop computer programming skills he could use in starting his first main venture in the web development industry). The relative ease of some young people in understanding new technologies and being able to use them to identify new entrepreneurial opportunities will be explored more in the results about opportunity identification in Chapter 5.

*And I think one of the earliest things I became interested in while I was at school was that there was a PDA and I created a GPS map function as there weren't any good maps available for it. So I wrote a programme for that, and then I posted it on the internet. And people started saying we want this, can we get a copy of it. And [I] made a little money out of it. It was interesting identifying that people would pay money for it really. And that's the nice thing about the web because a lot of the time you can prototype things very quickly. (Richard)*

Joel described well how his part time DJ-ing at age 16, while studying for A-levels, led to an increasing engagement with the music industry, in which he developed a series of part-time ventures over time. Broader skills development took place too, such as learning how to form partnerships. His desire for pro-activity rather than just thinking about a business opportunity was also common amongst participants in the study.

*Oh, I've been running my own businesses since I was about 16 I suppose, something like that. I first got into DJing and promoting my own night club events when I was about 16. Then I continued that and funded my university education by putting on Nights, and I suppose just learned about the music industry, and did partnerships with various people and it kind of went from there... You could call it wheeling and dealing really I think. I think ultimately I just...when people would talk about ideas, I'd go and try it. A lot of them would fail miserably. But some of them would come off. And it was just I suppose being bored and probably having some form of ADHD. I was bouncing off the walls when I was a teenager, so I just focused my energies, rather than into sport or education, I was trying to think about business and making money. (Joel)*

Obviously running informal ventures had some practical limitations compared to developing more conventional entrepreneurial experience at an older age. There are also limitations in using informal ventures as an explanatory device for the young entrepreneurs' later entrepreneurial activities. Firstly, they are very variable in scale and complexity. Informal ventures rarely involved the managing of people, certainly not on a formal basis. Later on when these young entrepreneurs started their first main businesses, they often appeared to struggle most with managing people, having neither corporate or entrepreneurial management experience. Secondly, some other young people will have participated in such informal ventures at a young age yet not established a formal venture either at all or otherwise on the scale that the participants in this study did later in their careers. Thirdly, in some cases participants recalled specifically wanting to pursue an entrepreneurial career as young as primary school age. However, in other cases, participants, while engaged in informal ventures, lacked a clear conception of what an entrepreneur did or what running a business would be like at a young age (e.g. Gavin below).

*Looking back, I was always doing entrepreneurial stuff, without really knowing what an entrepreneur was. The word entrepreneur has become more common in our vocabulary. (Gavin)*

Yet despite any limitations of informal venturing as a contribution to the young entrepreneurs' skills development, looking back most of the participants gave this experiential learning greater significance than formal schooling in developing their inspiration and skills to become entrepreneurs. The fact that so many participants had pursued these ventures, and that they said they had gained some entrepreneurial skills development from them, or that they symbolised their early entrepreneurial awakening, demonstrated the significance of this activity. Pursuing informal venturing appears to be quite strongly linked to young entrepreneurs subsequently starting their first main ventures very young, while at school or shortly thereafter (i.e. following Pathway 1 as described in the Introduction to this chapter).

#### **4.5 Experience of Non-Graduate Level Work**

The data shows that nearly all participants had experience working for someone else by the age of 18 (as distinct from informal venturing), this experience being gained part-time alongside school in all but one case. Those young entrepreneurs who went to university often continued with similar casual work while there. This work experience was most frequently in shops and hospitality (e.g. in a bookshop, on a market stall, in restaurants), but also included modeling, working in an old people's home and doing a paper round. The general human capital they developed included gaining general experience of the work place, developing customer service skills, working with colleagues, and in Adam's case the development of business "common sense" (i.e. practical know-how from experience). The age at which participants undertook this work experience varied from early teens to 21. Vicky also described how her work in pubs and retailing had helped her to develop customer service skills, important in setting up her consumer retail business.

*I'd got my little job to pay for my computer. I'd worked on the Sunday market in [Town X]. The biggest thing I learned from that was common sense. If you combine some common sense with a desire to be successful and some textbook experience and real life experience, then you can really start to build a basis on which to build a successful business. (Adam)*

*I always worked right from when I was 13/14. I always had a part time job. I've worked in a pet shop, an old people's home. I've worked in a pub for six years, a pub/restaurant... Again I think it's really really important for young people to get out there and find part-time work, because I think learning the discipline of working in an office, how to interact with people, getting used to the framework of a business, is definitely useful. I think working in the pub was probably the best working experience for me, just because I learnt the importance of customer service. (Vicky)*

Participants who went to university usually worked to some extent during their course, either on their own first main venture or in casual part time work. Gavin did not regard his work experience as being very significant to the development of his first main venture, although it did enable him to recognise that he was not suited to working for somebody else. It can be seen how his work experience influenced his attitudes and motivations, leading him eventually to an entrepreneurial career. He said that he did not enjoy working for someone else because he did not agree that they did things the best way, and as a young worker would clearly not have the power to change the ways things were done.

*And at the same time I'd had little part time jobs, things like that, and I never really felt comfortable working for somebody else. Often I'd have confrontations because I didn't think something was run in the right way and I didn't agree with the principles. I wasn't able to just take my hourly wage. (Gavin)*

There was only one case where a young entrepreneur appeared to have gained sophisticated work experience by the age of 19 which might be seen as more akin to graduate level work. Charles put his gap year work experience at a major IT firm together with his informal venturing experience as a web designer to start his first main venture in the IT sector. At the end of the quote below, he demonstrated how he had identified his business opportunity through his work experience at the large firm. Working in a very large organization led him to the conclusion that he did not want to develop a career in a corporate firm where he would lack responsibility and autonomy, at least for many years. Following his work experience, Charles decided to set up his own business rather than go to university as he had originally planned.

*So, I went to [Global IT Firm], with the intention of going back to university after a year. Whilst I was there, I realised I really hated working for a big company. I was one of 300,000*

*employees. You'd have to burn the office down to get anyone to notice you at all. And talking to people who'd been there sort of 25-30 years, they were starting to get to the point where they were starting to have vaguely interesting positions and responsibility, I just thought that doesn't appeal to me at all, at all. I don't like being in the position where your contribution has no impact on the net effect of the business. So that was a really useful lesson to learn, that I didn't want to do that. So whilst I was there, this was in 1999-2000, there was literally no public perception of Broadband. At [Global IT Firm], there was a showcase of ideas of the future, and one of them was Broadband, and I just thought that seemed inherently useful and people are going to want that. (Charles)*

In nearly all cases this non-graduate work experience occurred while at school or university rather than on a full-time, long term basis, with Charles's experience being an exception since it took place during a gap year. Even where work experience was not regarded as a positive experience at the time by the participants, looking back they were usually able to pick out particular things they had learned from the experience (e.g. that they did not want to work for someone else and desired greater autonomy from their work life). While non-graduate work experience was usually unsophisticated, it often gave the young entrepreneurs an opportunity to learn skills important to entrepreneurship such as customer service.

#### **4.6 Experience of Graduate Level Work**

Seven participants undertook graduate level work after university, although one of these participants went to drama school rather than university. Of the remaining participants who went to university they had either set up their business while at university, or more commonly set up their first main venture shortly after graduating. Those who participated in graduate work did so in recruitment, sales, management consulting, restaurant management and the entertainment industry, and were often able to use their graduate work experience to explain the positive and negative lessons it had taught them in wanting to pursue an entrepreneurial career. Participants with graduate work experience were less likely to have pursued informal ventures than those participants who set up their business younger, during or shortly after school or university. Where participants did have graduate work experience, it sometimes enabled them to start their first main ventures with a more sophisticated understanding of business than they might otherwise have had (particularly understanding how organisations are structured and decisions are taken within them).

All the young entrepreneurs said that they had gained some useful knowledge and skills from their graduate work. Even those who learned some negative lessons from graduate work (e.g. Thomas and Robert suggested that it showed them they would not enjoy working for others, partly due to a lack of autonomy), still said that they had also gained some benefits from the experience. Those participants with graduate level work experience appeared to be more positive overall about the contribution it had made to their starting their first main ventures than those who had done only non-graduate work. It is notable though that none of the graduates who had work experience after graduating recorded any wish to go back to work for someone else in the future. The specific skills and knowledge gained included selling, IT skills, higher level customer management skills, how to work under pressure, problem solving and the importance of building an appropriate workplace culture.

Corporate work experience offered a number of advantages to the young entrepreneurs in establishing their first main ventures. They recalled how they learned important transferrable skills, such as different ways to tackle problems and who to ask for help. Graduate work in large firms enabled participants to gain an explicit understanding of the significance of setting the right workplace culture. Hamish described how he had gained a range of transferrable skills, and picked out in particular understanding what motivates others, problem solving and the importance of organizational culture. Similarly, Stephen provided one of the most positive accounts of how graduate level work can contribute to developing appropriate skills and knowledge to embark upon an entrepreneurial career. He worked for a major management consulting firm, giving him exposure to a number of client businesses. He said it had helped him to develop appropriate attitudes to work such as self-discipline, ethics and professionalism.

*There's a lot of things you learn that can be used such as what do you do when you're under pressure, who do you call when you've got problems, when you kind of need help in different ways.... all skills you can use and are transferrable and really desirable [to starting a business]. From [National Recruitment Firm] I learned a lot about the importance of the values of a business, so it was good for me to have that experience. I learned that people didn't just work for money but for a whole variety of reasons. So it was good for me to have that experience. There are a lot of things that kind of bind you into a business, so I learned a lot about the kind of values that I wanted to have in my own business from working there.*  
(Hamish)



*But without the experience I had at [Global Consulting Company] I would not have been able to manage the business I'm currently managing. It teaches you certain ways of doing things. Certain behaviours and ethics, and professionalism and discipline and different ways of working.... (Stephen)*

Sometimes graduate-level work did not offer enough autonomy for participants. This did not mean that they believed they had not gained benefit from doing this work in the short term, but it meant that they sought greater control over their own working lives in the longer term. Thomas developed some significant sales experience during his graduate work experience, which he acknowledged as being helpful to him in his first main venture. Thomas said that the reason he did not want to continue working for other people's companies throughout his career was that he "had to answer to somebody else" (hence lacking autonomy) and that there was a limit to his level of reward. Although he believed starting his own business was a unique experience that nothing else could fully prepare him for, he did say that he had found his sales experience useful. Robert joined the graduate scheme of a FTSE 250 national entertainment company. He described how he had worked extremely hard at the company, but that he was not rewarded sufficiently for the effort he put in (e.g. he was not put on a particular bonus scheme). This led him to become disillusioned with working for this large employer for somewhat similar reasons to Thomas, in that he felt that working for someone else meant he lacked control and sufficient reward for the work he was putting in. Interestingly, Robert did credit his large employer with sending him on a prestigious business school management course. This was not backed up with practical people management experience in his graduate job, but it did give him a theoretical grounding in management. His job also gave him experience of watching managers at work in the company he worked for, so building a view about how he would wish to manage in his own business.

*I worked for two big American companies doing sales. I had some top graduate jobs. I've worked on various events in terms of management. I've done quite a lot you know, but I sort of knocked it all on the head when I was about 23 [in order to start my own business]...Some of the sales stuff was helpful [to being an entrepreneur]. I think probably the best thing was that I found out I didn't want to go back again. I think the reality is that nothing can prepare you for starting your own business, you've just got to go and do it.*

*What about being employed made you think that you wanted to run your own business?*

*I had to answer to somebody else and there was a limit to how much I could earn. (Thomas)*

*So I joined them on their graduate scheme. And I for a long time, certainly for a couple of years, thought I was going to be a lifer at [National Entertainment Company]. Final salary pension. You know I was on a sort of fast track scheme I guess. And I was very, very loyal. I worked like an absolute dog...I guess I thought [National Entertainment Company] was going to look after me so I'm going to give them everything I've got. But three years later, I had a bit of a falling out, because I'd been promised I'd be put on a bonus scheme [but a director later refused to do so]... At which point I more or less mentally left there and then. It was a very unsettling episode. I'd been so committed to the company, and just had a very harsh realisation that the message I was getting from the company, that, we don't care that much about you and, you know, ultimately you'll be a small cog in a big wheel for quite some time... [National Entertainment Company] had been very good and sent me on a [prestigious business school] management course... And I certainly felt I'd learnt a lot from how I'd been managed at Company X. I had a pretty good idea about how I wanted to manage people. I just hadn't had any experience of doing it. (Robert)*

After graduating from drama school (not university), Emily embarked on a career in restaurant supervision and management while she sought acting work. However, she increasingly became aware that she enjoyed business through this practical work experience. She had the strongest people management experience of any of the participants upon starting her own business, partly arising from being the one of the oldest participants at the time of starting her own business (age 26). She said that she gained skills through her work experience of dealing with customers, managing people, multi-tasking and working hard. It also motivated her to develop an aspiration for a career in business rather than in the field of acting.

*I always wanted to be the best at whatever. So I was just a very good waitress and was asked to be a supervisor. Then I was a very good supervisor and was asked to be a manager... But naturally my skillset was very good at managing people, so I kind of shifted into it more and more, and eventually had to make a decision about it...I think working in restaurants was the best kind of training, just working very hard in restaurants and bars, in catering in general. That taught me an awful lot about how to run and to manage people, and how to look after customers, and I think that taught me probably more than anything else about how to multi*

*task on a massive scale. I think everyone should have to be a waiter for a little while. I think it teaches you an awful lot. (Emily)*

In summary, non-graduate work experience, always undertaken before the age of 22, helped the participants develop nascent workplace skills, but rarely a sophisticated understanding of business in the way that longer term graduate experience might. It usually took the form of customer service roles. Its value cannot be discounted, however, since it was often the only experience of working in other people's companies the youngest entrepreneurs ever had. Informal venturing was often given greater weight, however, particularly by those participants who started their businesses during or shortly after school and had minimal work experience.

By contrast graduate work-experience led to a more sophisticated understanding of business (e.g. of organisational culture and decision making) and some higher level skills (e.g. problem solving or high value product selling). It is notable, though, that only one participant gained significant people management experience. So, even with work experience, the participants generally lacked practical experience of how to build and manage teams, although some said they had learned about this vicariously watching how they themselves were managed. Similarly, participants did not usually gain direct exposure to financial management through their work experience.

For participants with either non-graduate or graduate work experience, working in someone else's business was often partly a negative experience. They particularly disliked the lack of influence they felt as young people working in larger organisations and the way they did not feel they were fully rewarded for the level of effort they were willing to put into work. So their perceptions of what it was like working for others often led to entrepreneurship being seen as an attractive career.

#### **4.7 Conclusion**

Five key human capital factors in young entrepreneurs' development have been considered in this chapter: family background; school; university; informal venturing; and, work experience. While parents did not generally instruct their offspring to become entrepreneurs, there was evidence that many parents sought to encourage their child's ambitions. The participants tended to put greater weight on the contribution to their entrepreneurial careers of

the last stage of formal education that they had completed. So, Pathway 1 participants could often see benefits from their GCSE or A-level education to becoming an entrepreneur, but did not believe that continuing their education further would have enhanced their abilities to start their first main ventures. By contrast, the majority of participants who went to university (Pathways 2 and 3) did believe they had developed some useful knowledge and skills there to start their first main ventures. However, university was not described as essential to start their business by any participant. No level of education was described as developing an 'entrepreneurial spirit' in participants in the way that their informal venturing did.

The author is not aware that informal venturing has been considered before as a human capital factor, but the issue of young people running *ad hoc* informal businesses (before the age of 18) arose again and again in the interviews with the young entrepreneurs. It is notable that every participant who started their first main venture while still at school or shortly afterwards recalled previously having run an informal venture (Pathway 1 participants). Yet only a minority of participants with graduate level work experience (Pathway 3 participants) said they had participated in such informal business activity. The significance of informal venturing also appeared greatest for Pathway 1 and 2 participants in their pre-start-up human capital development, who mostly only had short-term, non-graduate experience of working for others. On the other hand, Pathway 3 participants had more sophisticated experience of working for others on graduate schemes with higher levels of responsibility.

It was clear that those young entrepreneurs who undertook graduate work (Pathway 3) before starting their first main ventures, rather than only non-graduate work, were more likely to suggest this had been helpful in offering relevant knowledge and skills. Those participants who only undertook non-graduate work (Pathways 1 and 2) were often less positive about the knowledge and skills it had provided them with for starting their own businesses. This reflected partly the length of time the non-graduate work experience lasted but also the level of seniority in the organization and their level of interest in their work.

## CHAPTER 5: BUILDING FIRST MAIN VENTURES

The previous chapter set out the human capital developed by the young entrepreneurs in this study before they started their first main ventures. Chapter 5 presents the findings about how the young entrepreneurs used their pre-start-up human capital from their families, education, informal ventures and work experience, and developed new human capital, in building their first main ventures. Table 5.1 sets out the age at which each participant started their business, the business sector they operated in, whether or not they started their business with a co-founder, and how they funded the growth of their firms. The age at which the young entrepreneurs in this study started their first business ranged from 15 to 26, with a mean age of 20.8.

**Table 5.1: Participant Information on First Main Ventures**

Name	Pathway	Age starting first main venture	Business sector	Co-founder	Finance source
Peter	1	16	E-commerce	No	Organic
Richard	1	18	Web services	Yes	Organic
Alistair	1	16	Computer gaming	Yes	Organic
Charles	1	19	Utility provider	No	Angel
Adam	1	15	Web services	No	Angel
John	1	22	B2B marketing	No	Organic
Jim	2	22	Food	No	Angel/VC
Matthew	2	15	Computer gaming	No	Organic
Gavin	2	21	Education	No	Organic
Vicky	2	19	Fashion	Yes	Organic
Luke	2	20	Web services	Yes	Angel/VC
Michael	2	22	B2B marketing	Yes	Angel
Joel	2	22	Music	Yes	Angel
Daniel	2	16	Web services	No	Organic
Hamish	3	25	Fashion	Yes	Large bank loan
Thomas	3	23	Property	No	Angel
Stephen	3	23	Social media	Yes	Angel/VC
Emily	3	26	Music	Yes	Angel
Robert	3	24	Entertainment	Yes	Angel
Timothy	3	26	Entertainment	No	Angel/VC
Alex	3	26	Stationery	No	Angel/VC

This chapter will present findings about how the young entrepreneurs: identified their opportunities; worked with co-founders; marketed their businesses; raised investment and managed their businesses financially; managed people; developed their business performance; developed their networks and social capital.

## **5.1 Opportunity Identification**

All of the young entrepreneurs in this study created their businesses from scratch. None inherited or bought their business, and nor did any purchase a franchise. Participants in the study identified the opportunities to set up their first main venture through: participating in personal interests (11 participants); informal ventures (6 participants); non-graduate or graduate work experience (4 participants). It is worth noting that the motivator for the informal venture ideas in the first place, that subsequently led to first main venture opportunities, was always a personal interest. So, 17 participants' ideas arose originally from a personal interest. Thus pre-existing knowledge was important in identifying opportunities, but this did not usually arise from previous work experience.

The opportunities identified for first main ventures included offering tailored suits online, online ticketing services, specialist web programming, healthy fast food outlets, computer gaming, IT service supplier, educational services, a social networking website, retailing t-shirts online, software provider, music management company, social media marketing agency, entertainment services and stationery supplier. It is notable that fifteen of the businesses involved making significant use of online technologies to provide and underpin the delivery of a product or service to the customer. Indeed seven of the participants were motivated to set up their business as a result of a strong interest in computing (e.g. programming), and their businesses usually involved the most sophisticated use of IT. There has been a growth of online technologies as this generation of young entrepreneurs have grown up. Some of the young entrepreneurs had managed to achieve a disruptive effect on an existing industry, for example by making a significant innovation in their industry through online trading using different techniques to existing competitors (e.g. new products or new ways of interacting with customers). Luke described a common belief amongst the entrepreneurs that young people are particularly suited to starting up firms involving online technologies, in particular social media.

*And a lot of the big companies, particularly in technology, a lot of the big entrepreneurs have been in their early or mid-twenties when they started out... I think on the internet, young people are more connected with the social technology. They understand it better than older people do. (Luke)*

Personal interests were a significant motivator in the opportunity recognition process for many participants, though this covered a broad range of activities from playing computer games to back-packing around the world. The intensity of these activities varied greatly from major hobbies (especially in computing), which took up a lot of time, to a general interest in an activity (e.g. an interest in healthy eating). Enthusiasm for a personal interest enabled the young entrepreneurs to build knowledge of a sector initially from a consumer's perspective, often not being aware that they would ultimately set up a business in that sector. This knowledge of a particular sector can be seen as akin in some ways to venture-specific human capital (i.e. knowledge about the specific sector in which they established their first main venture). While participants were certainly all keen to develop a strong business, some of them emphasized that their primary motivator initially was pursuing their personal interest. They identified a business opportunity through participation in their personal interest. It was particularly the case for those participants starting their business while still at school that they often pursued an idea out of interest and then recognised a commercial business opportunity coincidentally.

A personal interest in computing was the impetus for opportunity recognition for seven participants. This often led to firstly an informal venture related to computing, followed by a first main venture in the computing sector, in particular involving the use of online technologies. Matthew's idea for his first main venture arose directly out of an informal venture. He said that he was initially drawn to the idea for his first main venture due to a wish to engage more in his hobby. It became a business because he realised he needed to develop advertising revenue to sustain the growth of his website. He then sought to maximize profitability, so a fully fledged business began to emerge. Daniel described how he had always enjoyed learning new skills by himself as a hobby, in particular computing skills.

*I set up my first business in 2003 when I was 15 during Year 10 or 11 at school. And it wasn't really a business at the start, it was just a hobby. So I was making cartoons on the computer with Flash, and I needed a way of sharing them with my friends. And the only way*

*of sharing them with friends was to make a website. So I did that. And then I decided to try and optimise it in the search engines to get traffic to it. When I did that I was getting a few thousand people a day. And then I added videos to it, to the website. It was about a year and a half before it was launched. It was one of the first video sites on the internet. And then it grew really popular. And it became very expensive to run. So I had to find a way to cover the costs. Which was through advertising. So then it became a business. And I tried to maximise profits. (Matthew)*

*I've always liked learning [computing] stuff by myself... I like learning stuff by myself. It keeps my brain ticking away. Even now I try to learn new things by myself, because I enjoy it. (Daniel)*

A strong personal interest in music was the motivating factor for Emily and Joel in identifying their opportunities. Joel developed what was essentially an informal venture running 'club nights' at the age of 17, before going on to set up his first main venture in the music industry, pursuing a more sophisticated business opportunity, after leaving university. Emily shared an interest in music with her friend and future business partner, together with having other friends already working in the music industry. Opportunity recognition here was shown to be a gradual process of discovery, related to a growing interest in the music industry. She and her business partner recognised that the structure of the industry was changing, in particular the traditional way of supporting and marketing artists no longer worked and so there was an opportunity to do this in a new way.

*I mean the music industry's still in a big state of flux where everything's changing and I think it started off that just purely we can probably help artists...we can probably help artists and help them do something in a different way rather than just waiting for a label to sign them. And as we got involved we saw the opportunity...in the market it was important to us that labels were falling to pieces...the traditional way of running a music company was all over the place. We felt that we could provide a real business structure for artists, because there wasn't any structure. It was all very kind of accidental, and we kind of thought that was crazy and we couldn't believe that it had worked for so long. And I think we thought we had something to offer where we can create really interesting ways of making these people successful. (Emily)*



Two participants (Hamish and Vicky) had an interest in particular types of clothing, in one case tailored suits and in the other nostalgia-based clothing. Each participant recognised a business opportunity which they were drawn to due to their enthusiasm for this particular type of clothing. In both cases there was an element of chance in coming across the idea by accident, although they demonstrated the ability to recognise that their ideas were worth pursuing commercially as their first main ventures. Hamish described clearly how he had identified his fashion-sector business idea, drawing on his interest in fashion.

*Yeah one of my mates had got a really awesome suit. We were having a chat about where he had got it. He had got it while he was travelling in [South Asian country name] and he had some flares on that I didn't particularly like, but I liked the rest of it and I liked the fit and fabric. So I asked him where he got it. And I think it just lent itself to designing your own suit online really well, which kind of crept into my head. To be able to choose the kind of suit you wanted, the kind of cut and pockets and so forth, it seemed an infectious idea. (Hamish)*

Generally the experience of working for other people's firms assisted participants with gaining an understanding of business and marketing, but the sector of participants' work experience was only linked to the entrepreneurial opportunity they identified in four cases. For example, Robert identified his opportunity in the entertainment industry having worked in a related role in an entertainment company on their graduate scheme. Charles identified his opportunity through a combination of his hobby in computing and doing a gap year placement in a global IT firm. Charles described how he had developed his idea of providing a broadband service in multiple occupancy residences. Alex set up a firm providing novel designs for stationery products online, having previously worked for another e-commerce firm in the design industry. Although his previous work experience had helped him to understand the design needs of clients, he realized that the opportunity for his own business partly involved changing the business model of his previous employer. He believed his own company needed to put greater focus on sales relative to creating content in order to develop a viable business opportunity, particularly since his old employer's business had failed to survive.

*I was there [Global IT Firm], this was in 1999-2000, there was literally no public perception of Broadband. At [Global IT Firm], there was a showcase of ideas of the future, and one of them was Broadband, and I just thought that seemed inherently useful and people are going*

*to want that... We take for granted things like You Tube and so forth today, but at the time we didn't have the plumbing right for these kinds of services. (Charles)*

*We [the company he formerly worked for] did a bunch of design work for small companies. I think that company needed far more sales people testing the model, and fewer people creating content. So, in starting this business [first main venture], I put a greater focus on generating revenue compared to that start-up and less focus on creating the product. (Alex)*

In summary, opportunity identification generally arose out of a personal interest rather than relevant work experience. Given that work experience was usually not in the same sector as the founders' own start-ups, work experience was more likely to lead to functional business knowledge (i.e. general human capital) helpful to starting a business rather than the identification of a specific opportunity. So, personal interests were far more likely to be the source of venture-specific human capital than work experience. Amongst Pathway 1 participants, a business often gradually emerged while participants were pursuing their hobbies, with participants sometimes establishing an informal venture first while still at school. Pathway 2, and especially Pathway 3, participants were often more aware that they wanted to set up a business already, and so while pursuing their personal interests would identify an opportunity in a more direct and focused way. The young entrepreneurs identified opportunities in a variety of sectors, but in a significant minority of cases having a strong teenage interest in computing helped them identify opportunities they could use IT to deliver, especially through online technologies.

## **5.2 Having a Co-Founder**

A key decision for participants was whether to establish the new business alone or with a business partner. Ten participants had a co-founder who had jointly built their business with them throughout the whole journey of their first main venture. In each of these cases both co-founders undertook executive roles in running the business, rather than simply being a non-executive director. Of these ten businesses, one of them had three business partners. In order to qualify to participate, all co-founders had to fulfil the age characteristics of the sample. Three of the remaining participants had a business partner who joined them during the development of the business as a result of a merger or other deal.

Entrepreneurs met their business partners through a variety of different means. Seven of the participants found their business partner through a pre-existing friendship (bonding social capital); one participant's business partner was their husband (bonding social capital); one participant's business partner was a brother (bonding social capital); one of the participants met their business partner in the workplace (bridging social capital initially); and the remaining three participants met their business partners through business networking (all bridging social capital initially). In the business which had three business partners, the first two met through friendship and the third business partner was a friend of one of the first two business partners. Even where the co-founder was initially identified through bridging social capital, the number of interactions between the participants as business partners clearly meant that they formed a bonding social capital connection over time. Two specific issues arose relating to participants having a business partner: the nature of the relationship between business partners; and, the particular contributions that each of the business partners made to starting and running the business.

Having a trusting and supportive relationship with a business partner was regarded as very important by most young entrepreneurs who were co-founders of a business. Having a co-founder was seen as a useful source of support in the sometimes lonely journey of the entrepreneur. Richard said that the role of trust in the relationship between business partners was critical. He said that having a business partner can provide a key source of support ("you can always have a chat about something"). He even suggested that he may not have started his first main venture without his business partner. Hamish emphasised the importance of the support that a business partner can provide to help an entrepreneur cope with the stresses involved with building a business. He saw his co-founder as providing an important part of his overall support network. These two recollections contrast with some of the participants who did not have a full-time business partner. For example, Thomas described being an entrepreneur as a "lonely" career path.

*Having someone who's opinion you trust is really important. Having a co-founder has been really important. It just means that there's always two people, it means you can always have a chat about something. I don't know if I'd have set up a business on my own. But having a co-founder means that you can have a chat if you get on with them. (Richard)*

*I think the most important thing is having a support network to be able to speak to, and people who can help you through tough times. I'm very lucky to have a business partner, another great thing to have. You're not there alone in hard times, someone to give you a pat on the back. (Hamish)*

*I mean that's the thing about being an entrepreneur...it's a lonely thing really. (Thomas)*

In all cases co-founders were described as having at least some differing skills from one another. Alistair suggested that working with a business partner can provide the necessary complementary skills and knowledge to exploit a business opportunity. He said that without each other, his business would probably not have been established because the business needed both of their knowledge and skills to succeed. Michael also emphasised the importance of the complementary skills each business partner can bring to building a venture. He even said that they had complementary personalities, with him being more optimistic and his business partner more pessimistic, with the combination of those two ways of thinking being helpful to the business. It is the interviewee here who brought the ideas and vision for the business while his business partner provided the ability to work through the details to make the ideas happen. He said his business partner also brought a greater aptitude for technical skills (in particularly computer programming), while Michael brought commercial product development skills to the venture.

*Me and my brother, he's four years older than me, we started the business together, so I guess he has a very similar entrepreneurial spirit and interest in the same things as me. So I guess we wouldn't have done the business if there hadn't been the both of us. He was more on the technical side, and I was more on the kind of entrepreneurial and business side. I don't think we would have done it on our own without the other. He would have probably been happy just messing around and programming and stuff. I was really interested in getting into the business side. (Alistair)*

*We're good at different things. I'm good at being visionary and talking to people and coming up with ideas. But I'm not very good at actually sorting out the details. Getting it all done. I also have more of the commercial product skills and he has more of the technical [programming] skills, a deep understanding of the technical parts of it. We also have different personalities. I'm very optimistic and he's more pessimistic, so we balance each other out. And I think that having that makes a big difference. (Michael)*

Only one participant established his business with two co-founders. Stephen described how each of the three business partners involved in growing his business brought a particular complementary skillset necessary to the business's overall success. He is also clear that without his first business partner's encouragement he would probably not have started his first main venture.

*[Named Business Partner 1] had completed an entrepreneurship course at [Prestigious European Business School]. He had also completed a course at [Ivy League American University], which gave me the confidence that he had the business acumen and the passion and the vision for the business idea that I shared with him. It's only thanks to him that I got pushed to do something about it. I think just in my surroundings with my friends and family the idea would probably never have been pursued and I would probably have stuck to my job. So I got a kick in the bum from my business partner that you need to do something about it. And I was pushed to do something about it. And it reaffirmed that I should do something with him. And I think at that point I decided...it was only three months later that he recommended that we bring in a third person who would be able to bring the technology expertise. Because him and I had a business idea but we had no idea about technology. That's when he recommended that one of his best friends, [Named Business Partner 2], should come and join the team. (Stephen)*

Having a co-founder was recalled as being a very important part of building their ventures by those participants who had them. Businesses in this study had been started either by an individual young entrepreneur or by two or three young entrepreneurs who all fulfilled the age criteria for this research. These co-founders were commonly initially identified through a participant's bonding social capital connections and less frequently through a participant's bridging social capital connections. The nature of the relationships between business partners was significant, even critical, as it provided support, trust and someone to talk to about the business who was committed to and understood it. In terms of human capital, participants were explicit about the complementary human capital that they and their business partner(s) brought to the business, with each partner providing a different set of knowledge and skills. By contrast, those participants who had started their business alone were more likely to recall being an entrepreneur as a lonely career compared to those who did have a business partner.

### **5.3 Marketing**

Marketing was an area of the business that the young entrepreneurs expressed less concern about relative to either people management or finance. The criteria for selecting the research sample meant that all the entrepreneurs had achieved relative marketing success in building turnovers above £1million or otherwise persuading investors that they would generate a significant turnover in the future to give a healthy return on investment. As was found in the work experience and informal ventures sections of the last chapter, all participants began their businesses with some experience in customer service and/or sales. However, initial knowledge about marketing and sales varied significantly between participants. Four participants had been employed specifically in sales roles, which they recalled as being an advantage when setting up their first main ventures. Only one participant recalled his education being specifically helpful to his market research (Jim). Most non-graduate work experience in customer service roles was in retailing or hospitality, giving those participants at least a rudimentary understanding of marketing and sales issues (as explained in Chapter 4). Pathway 1 and 2 participants were far less likely to bring sophisticated sales skills from work experience than Pathway 3 participants, but they had sometimes developed an understanding of marketing and sales through running informal ventures. Even participants with the least previous marketing experience generally did not say they had been constrained by this when setting up their first main ventures, and were keen to learn how to market in their industry by looking at existing players. Three particular marketing issues will be addressed here: market research and testing at the start of the venture; marketing their products; and, the specific activity of selling.

#### **5.3.1 Market Research**

Approaches to market research varied widely. Particularly for Pathway 1 entrepreneurs who started their first business while still at school, their first main ventures often arose out of an informal venture. Initially these participants were pursuing their personal interest through an informal venture, without specifically intending to go on to pursue a full-time, long term venture, when they identified that there was a market for the idea that became their first main venture. Hence the business idea came about opportunistically without formal market testing. Pathway 1 participants who set up their businesses slightly older after leaving school (i.e. Charles at age 19 and John and age 22) did, however, undertake formal market testing.

Pathway 2 and 3 participants were more likely to have undertaken formal market testing activities at the beginning of their first main ventures.

Emily, on Pathway 3, described how she and her business partner participated in the relevant music trade associations early on and went to meet as many key players in the industry as possible in order to practically research the feasibility and market for their idea. Their networking was focused on deliberately trying to get a better understanding of the market in the early stages of setting up their business. Joel, on Pathway 2, also undertook conventional market research, asking attendees at concerts about his planned music product.

*At first we just tried to get as many meetings as possible. We just said we want to do this, we have no idea how to do it, have you got any advice. We were really honest that we didn't know anything and I think that was probably the way we decided to train. I think experience is much more important than someone describing on a pie chart about how business is performed and stuff. Basically we just put ourselves on loads of internships. (Emily)*

*So we went and stood outside [Music Venue X] and such places for a long time, asking people would they want a recording of the show, how much they would pay for it, how long they would be prepared to wait for it after the concert and such like. It was just fundamentally positive, the feedback we got. (Joel)*

The formal market testing of an idea was demonstrated by Hamish, on Pathway 3, who set up a market stall to see if his product would sell, which not only helped to prove the viability of the idea but also gave Hamish his first sale.

*So we set up a market stall on a Saturday, and we sold two suits in the first twenty minutes, we didn't sell anymore suits all day, but we thought ok this idea has got legs, so we spent time developing a website overnight, with a couple of mates, which could just about take orders for suits. And we had orders coming in from that week. And so we knew it was a viable business. (Hamish)*

Market research activity abroad was evident in half of the businesses, usually once a nascent domestic market had been established, in order to find international markets to expand the business into. In Jim's case, however, his market research before starting up included visiting America to look at what similar businesses were doing there, so he could build on such concepts in his UK food business.

*I did all the usual kind of research...Intel, going out to speak to people, going to see different businesses. I went to America, looked at some concepts there. (Jim)*

A significant amount of business travel was common amongst participants as Michael commented, for example travelling in order to research foreign markets. Four of the participants, including Stephen below, said that they had established offices abroad to deal with demand in particular countries, especially in other parts of Europe and America.

*For [Company X] yes we have customers in the US. That's a big market for us. (Michael)*

*We've got three offices – one in [Major American City], one in [Major European City 1], and one in [Major European City 2]. (Stephen)*

A small minority of participants did experience early failures in their market research and their broader approach to marketing. However, they generally took personal responsibility for marketing and recognised that they needed to improve their own understanding of this area if it was weak. Most notably Alex, described how he had improved his understanding of his customers' needs both through taking on staff with relevant marketing experience but also developing a stronger understanding of his market himself.

*[Marketing was] very challenging at first. I made a lot of mistakes. But as time went on, I hired a lot of good people. Subsequently I did a lot more analytical work. And you need different marketing for different stages of the business. But marketing comes down to brand and positioning and I think initially I got that wrong. But then later I did get it right. To explain, at the start it was like a fashion brand, like you wear Calvin Klein and that is a form of marketing to other potential customers. So for us, it was about getting key customers to promote our brand. I think the second [more successful marketing] stage was trying to make it more their brand – the customer's rather than our brand – about who they are. So really we launched the business successfully in the second phase. I think all businesses should establish what their customers' agenda is first. And that's really what they should go after, not what you want. Companies need to be sensitive to that. Your business success and sales follow that. And I think that's a great way to look at the world. (Alex)*



### 5.3.2 Marketing and Selling the Product

There was much evidence of creativity in the marketing of products amongst young entrepreneurs, often arising partly out of limited marketing budgets. This is not necessarily a disadvantage since it may have encouraged them to keep their costs low and to take “very creative” approaches to finding new customers (Timothy). The participants rarely made use of expensive forms of marketing such as television advertising, even when they were growing relatively large businesses, perceiving these to be less successful than newer forms of online marketing such as social media and Google Adwords. Even those not directly selling IT-based products and services, were very familiar with the benefits of online marketing, reflecting a cohort effect, because they had grown up using the internet and felt comfortable with using it in their businesses. They also became aware that they were at an advantage compared to older entrepreneurs in gaining free press coverage, due to the human interest factor of being a young entrepreneur. Stephen provided an extensive account of his marketing activities, which had included viral marketing, television advertising and public relations (through newspaper stories). Notably, he recalled that his firm’s relatively brief trial of television advertising had not generated sufficient revenue to be worthwhile pursuing. Hamish explained that he also relied on internet marketing and public relations, since his firm did not have a large marketing budget and had not received venture capital or angel funding.

*The first form of marketing was viral which is actually the most common form of how social media platforms like ours have grown, because essentially you’re relying on your social network and friends and other connections you make throughout the site to spread the word. If you have a good product then obviously the word will spread more naturally. So we’ve never advertised through other forms of advertising. We did try TV advertising in 2007 but that was only for a month’s trial, and it was so expensive that we’ve stayed away from it ever since. To be honest it didn’t hardly bring anyone in. There was a minimum of excitement that some people saw the advert, but that was about it. There was no participant peak or increase in traffic following that. The key thing that worked for us was viral marketing. The second thing that worked really well for us particularly in 2006 and 2007 is PR. We had a lot of coverage in the UK tabloids as well as internationally because of the story of two guys of two backpackers that had an idea over a pint of beer and decided to do something that is starting to be quite successful. The human story is always the one that captivates the mind.*

*It's the one that you need to drive the buzz and excitement as opposed to a pure commercial awareness or promoting the brand for the sake of it. (Stephen)*

*We've never had a big budget. We've always relied on our fantastic internet presence and PR and marketing team. But we haven't had to have funding to be able to do that, which is always a challenge. (Hamish)*

Participants generally had a high awareness of the importance of selling, sometimes developed through work experience, sometimes through informal ventures, and at other times experientially while growing their first main ventures. Three participants recalled how they had become very effective at sales cold calling, drawing on work experience in two cases and informal venturing in the third case. For example, Thomas suggested that effective use of cold calling could be an important way to enter new markets and make new contacts, having developed the ability to make sales calls in his graduate selling job.

*The one thing an entrepreneur has got to be able to do is cold call. Eventually you get a meeting and then you start to build relationships, and it just takes time. (Thomas)*

A particularly sophisticated understanding of selling to large businesses was demonstrated by Adam, who at the age of 19 recruited well known public and private sector national organisations as customers. He was able to identify his marketing advantage compared to far larger and more established competitors, because he was able to customise his product to meet the exact needs of his customers' businesses. This case represents the best example any participant provided of sophisticated marketing skills during their teenage years. He had developed these sophisticated marketing and sales skills while running his first main venture, having only developed more rudimentary selling skills previously working on a market stall and selling sweets (an informal venture).

*But the large corporates they don't necessarily want to deal with the big incumbent telecoms providers or service providers, because they're notoriously inflexible. They can't necessarily deliver something they want. They'll deliver something that's close, but you're almost fitting your requirements around the products and services. You're not building the service that is suitable for the requirements. And when you kind of get a young business in there which is dynamic and has a very different approach to other people, and can deliver exactly what they*

*need, rather than something that is almost [to] their requirements, people take an interest.*  
(Adam)

Although the young entrepreneurs brought different levels of marketing knowledge and skills to setting up their first main ventures, none found it to be their main, long-term business problem, partly reflecting the turnovers the businesses in the research had achieved. Participants' experiences from running informal ventures and their work experience were often useful in enabling them to understand marketing and sales. These experiences were more useful to developing knowledge and skills in marketing as opposed to in finance and people management.

Pathway 2 and 3 participants were more likely to undertake formal market research and testing of their ideas before establishing their first main ventures, while the youngest participants were more likely to unintentionally discover the idea for their first main venture and realize there was a market for it. The lack of a large marketing budget, especially at the beginning when most businesses had no major external investment, meant that the young entrepreneurs had to find creative ways to find new customers, drawing on their understanding of online marketing, social media and effective public relations. Marketing was a function where expertise was usually developed internally rather than relying on paid external advice.

## **5.4 Finance**

Participants usually started their businesses with little experience or knowledge of finance. Only one participant had previously performed a general management role involving some financial management (Emily), and no participant had a professional financial qualification. Two participants recalled a small amount of financial knowledge obtained in relevant modules of a business studies degree. Participants often looked externally for advice on finance initially (e.g. from an accountant), before sometimes creating a full time finance director role as the business grew. Two particular financial issues arose for the young entrepreneurs: raising investment; and, day to day financial management.

### **5.4.1 Raising Investment**

Some participants had to expend considerable efforts, either at the beginning of the start-up process, or later, on raising the necessary finance to pursue their business goals. Eight of the

participants recalled being able to grow their business purely from cash-flow (which sometimes early on included personal credit card loans, and using of small personal savings). Of the remaining 13 participants, one received a large bank loan, and the remaining participants raised investment through angel investors and/or venture capital.

Growing from cash-flow (rather than seeking external investment) was usually pursued not because of difficulty raising finance, but instead because those participants did not want to give away equity and control in their businesses. Peter described how he was able to grow his business organically from cash-flow and using some savings from a part-time job he had had before starting his business, while Alistair said that growing his business without raising external funding was important to him.

*No, I really bootstrapped it from the beginning. I saved up some cash from the job I had.*  
(Peter)

*So the number one thing for us was not taking investment. I mean that wouldn't always be the right thing to do and I probably would want investment [if I was starting] now. Not everyone has ten years to build something...* (Alistair)

Five firms raised funding at the start, but eight more participants raised major investment at a later stage. Being young certainly did create challenges for the young entrepreneurs in raising investment. The entrepreneurs' age provides one explanation as to why, of the thirteen funded businesses, only five received investment from the beginning, at a time when their businesses had no proven customers and the young entrepreneurs did not have previous conventional business ownership experience. The difficulty for young people in raising finance, however, may also have influenced the sectors they chose to establish their businesses in (e.g. avoiding capital intensive sectors such as life sciences and manufacturing). Jim was the only young entrepreneur to set up a high street-based business (requiring significant investment in rent and property development from the start), but most participants avoided high street-based business models. In the following case, Charles required funding to develop infrastructure to provide a utility service from the outset. He said that while he initially required start-up capital, he was later able to pay this back and generate growth mainly through cash-flow.

*So I went to a number of angel investors to say this is what I want to do and this is the case...even with that we raised enough money to run us for 18 months...Since the money we raised initially, which has all been paid back, we've been funded out of cash flow. (Charles)*

Timothy, unusually amongst the young entrepreneurs in this study, received funding at the start-up stage from friends and family, but has since raised venture capital funding. He described how he had learned more about how to raise investment compared to he knew at the start-up stage. Elsewhere in the interview he described that he had tried and failed to raise venture capital funding at this earlier stage.

*It's interesting, now I'm raising money from VCs, and I understand the game a lot better than I used to... So what investment does it enables you to accelerate development. (Timothy)*

Finding investors who were able to offer relevant advice about growing their businesses, as well as funding, was important for most of the young entrepreneurs in terms of the kind of investors they sought. The provision of this advice was believed to be particularly important given participants' relative entrepreneurial inexperience. Finding an angel or venture capital investor with an understanding of their sector could give them access to significant human capital and social networks for their business. Seeking funding during growth rather than at the start-up stage was sometimes pursued in the knowledge that particular investors could provide important advice as well as finance to enable further growth. The entrepreneur wanted to make use of the investor's human and financial capital. So, unlike businesses that absolutely needed significant amounts of capital at the beginning and could not be funded purely through cash-flow, finance at the growth stage was often sought to speed the rate of growth and for additional benefits that investors could offer the businesses. Emily, after running a music industry business for year, sought angel investment. In common with a number of the participants, she recalled having to develop a business plan to raise capital, while having certain misgivings about the accuracy of such documents. It was seen as important to build a relationship with investors first (e.g. by getting to know them and asking them for advice) before asking specifically for investment. This might be particularly relevant with angel investment, which is quite often provided by those who may have significant business experience, but are not professional investors, and are partly investing out of interest (e.g. they may get a 'buzz' out of supporting young entrepreneurs in the development of their new ventures).

*Of course if you want to get any sort of funding or [get] anyone to support you, you have to have a business plan. It's like, it's a load of rubbish, you just make up the figures. The first couple of business plans were probably atrocious but they got us some investment somehow. [To raise finance] you've just got to be bloody good and bring something new to the table and understand the people you're going to. You can't just go to an investor and talk to them about something that's not relevant to them at all. And I think if they're going to hand over £1million, then we spent over a year with the major investor who put into this fund, working around ideas, talking to him, going to him for advice. Don't ever go and ask for something from someone straight away. You have to get on a level with them. We spent a long time building our relationship with him, not really with a view of getting money from him at all.* (Emily)

Eight participants received angel funding alone, while five participants received a combination of angel and venture capital funding. Stephen obtained a mixture of venture capital and angel funding to grow his business, raising a total of £8 million in multiple rounds of fundraising. He said that the role of investors can be important in developing structure and governance in a growing firm. In common with most of the young entrepreneurs, however, he justified his particular approach to investment, and did not spell out any downsides of taking venture capital funding. He regarded the extra pressure as helpful in providing focus. This perspective was in contrast to some of the young entrepreneurs who had deliberately grown organically to maintain their autonomy in running their businesses (e.g. Alistair).

*So the big majority hold on the investment was [name of private equity firm], a private equity company, like a VC... Yes it certainly put a lot more pressure on, but I think in a good way. It forces you to put a structure around your company for the better good. Because you actually have a bit more governance to your business. It forces you to do things in a slightly more professional/structured way, and I think that's where working with VCs and adding a structure with a chairman and board meetings on a regular basis, I think it really forces you down to focus on the right things.* (Stephen)

#### **5.4.2 Financial Management**

Problems with day-to-day financial management occurred in a significant minority of the young entrepreneurs' businesses, particularly in the early stages. Only one participant suggested that financial issues in his business may still be ongoing, though other participants

may not have wanted to reveal current financial problems. (By contrast, however, they did reveal current people management problems.) Alistair said that relying on cash-flow as he grew the business had led to day-to-day issues initially such as not being able to pay suppliers on time, although he said that those issues later became less important as the business grew further. Adam also reveals here a cash-flow crisis point at an early stage in growing his business, which could have been fatal.

*Creating a product and then delivering on it and then getting paid can be a hell of a long process, and without external funding, that can be difficult. It can be a nine month process, it can be longer or shorter depending on the business. For us it was 6 months from setting up the business to getting some money in the bank. All the while you're paying the bills and paying some salaries and things like that. At the beginning that was a nightmare, kind of telling people you will get paid eventually. In recent years that's less of an issue for us. (Alistair)*

*We got hit with a bad debt of £180,000, and that was near to being terminal. Financial management is incredibly important. (Adam)*

Founders rarely recalled becoming finance experts themselves, usually beginning by using an external bookkeeper or accountant to support the finance function, before sometimes later taking on specialist finance personnel in-house. Vicky described how she had made a decision early in the growth of her business to employ a Finance Director. This appeared to be a good example of using entrepreneurial skill in identifying a weakness in her own management team's existing skillset and identifying how this could best be filled. Adam also discussed the importance of having a high quality finance director to provide financial management expertise as a business expands.

*And I think we made the right decision bringing in our FD relatively early I guess after about three and a half years. And that was a big relief off our shoulders. Because trying to run a business and deal with that and everything else that gets involved, that for us was something that pushed aside because it was something we didn't enjoy and something we weren't very good at. (Vicky)*

*Financial management has been a challenge and when you get bigger, one of the first things you should invest in is someone who's incredibly hot on the numbers. That usually pays*

*dividends. They pay for themselves through all the efficiencies they save in the business as opposed to just being a bookkeeper. (Adam)*

The finance function did raise problems for a number of the founders, either in raising investment and/or day-to-day financial management, but they never recalled it being a specifically inhibiting factor in their business growth over the longer term. Two thirds of participants had raised significant external investment at some point during their development, reflecting the ability of these young entrepreneurs to convince investors of the strength of their ventures. Participants usually did not appear to focus on developing in-depth knowledge of financial management themselves (e.g. accountancy procedures), with the recruitment of employees with financial expertise or external advisors being more common.

## **5.5 Managing People**

The area of the business that proved hardest for most of the young entrepreneurs was learning to manage other people, as only one had previous line management experience. While they did experience financial and marketing challenges, these were less significant as barriers to growth for the young entrepreneurs' businesses. The founders usually learned how to manage experientially, although two did do short courses on people management. Only one participant in the sample suggested he had had no problems with people management (John). Informal ventures had not provided the young entrepreneurs involved with people management experience. So they lacked the human capital development in people management skills of some older entrepreneurs. The number of employees in participants' firms ranged from five to 150. Pathway 3 participants (who had graduate work experience) were more likely to recall gaining a vicarious understanding of management before starting-up themselves, through their longer term work experience which was often in complex organisations. Three specific people management issues arose for the young entrepreneurs: recruiting the right staff; taking on the role of manager and implementing human resources policies; and, structural and cultural issues as their businesses grew.

### **5.5.1 Recruiting People**

Recruiting people was mentioned by five of the participants as an area where they had, at least initially, faced challenges. The founders described how they had realized, often through initial mistakes, how they needed to develop and implement effective recruitment and



broader HR policies to overcome their recruitment issues. Vicky discussed how she had learned early on from making a bad hiring decision when recruiting staff, and how she subsequently put more formal HR processes in place. She learned not only the importance of choosing a good employee, but also of ensuring that appropriate contractual and probation arrangements were in place when a new staff member started. For Gavin, recruitment was a major issue, as his service business required large numbers of employees to grow. He described how eventually he developed a robust process to identify the new hires his business required.

*We've had one member of staff who was quite a bad hire, caused quite a few issues, kind of lowered morale a bit because she was quite difficult. She was pulling a lot of sickies. She was lying to us about certain things. She was a bad egg really. We're a lot more careful now with our recruiting process and our reference checking, and just our probation period. We weren't really kind of aware of all the formalities of staff contracts, so that's where we fell down, and so we put procedures in place to stop it ever happening again. (Vicky)*

*So it's a challenge finding the right people. But now I've got a formula and I've got a team dedicated to recruitment and selection, who just go out there and find the right people. (Gavin)*

### **5.5.2 The Role of Manager**

The management problem which affected all but one of the founders was taking on the role of people manager, almost always without previous line management experience. The problems included, how to manage people older than them, understanding that employees had different motivations in their work, not enjoying management as much as other business activities, and sometimes finding out they did not have the right characteristics to be a good people manager. A young entrepreneur may face particular issues in managing members of staff much older than themselves, in that it can be difficult for a young person to manage an older person who has considerably more experience in the workplace. However, as Thomas illustrated, they did often suggest that their management skills had improved with experience, though this did take some time.

*I initially struggled a lot managing people, especially people who were older than me. There was a challenge there, being a young person managing people older than you. But*

*eventually you just learn that different people's motives for being at work are different to yours and that kind of thing. And understanding why people are at work and what motivates them is important. (Thomas)*

Lack of people management experience, meant they had to learn from scratch how to motivate staff and relate to them more generally as their manager, as Jim described.

*In the beginning, it was a bit of a nightmare. I was very impatient and probably a bit arrogant, short tempered. But I think management is a skill you can learn... to motivate people you need to understand what motivates them. You've got to treat everyone like an individual. And in the old days I used to think everyone was the same as me. But they're not, not everyone wants to take over the world. (Jim)*

John recognised that he lacked 'hands-on' people management experience. However, he did learn some lessons vicariously about managing people by observing the management styles of managers in the workplaces where he gained his pre-start-up work experience. His ambition to be an entrepreneur had meant he had been consciously learning lessons during this work experience about how he wanted to manage people himself in his own business.

*I didn't have any [people management] experience. I'd never been in a management position or been promoted in any of the companies I'd worked in. I didn't find [people management] that challenging. Just because I'd always known I wanted to start my own business, so I'd been watching how my managers managed people. I always remembered how it made me feel when I was managed and they did things that annoyed me or whatever. I suppose I applied all those lessons when I started my own business... I didn't maybe have as much struggle with it as maybe I would have done. (John)*

While most founders appeared to have improved their management skills by the time of interview, two participants had made the decision that they were not suited to people management. This is a similar reaction to the decision by some young entrepreneurs to bring a finance director into the business to provide expertise in carrying out that business function as the businesses became larger. Charles analysed his skills as a people manager, and decided that this was not one of his strengths. This eventually led him to employ an Operations Director to take on a lot of the day-to-day people management issues. Nevertheless he also said that he had "read a lot of stuff and [done] courses" to improve his

understanding of people management. His willingness to undertake courses and reading on people management showed he realized the importance of people management to his business as well as his personal weaknesses in this area. Peter also described how he had taken on a Chief Operations Director so he could focus on strategy.

*It's certainly something I don't take naturally to, managing other people. Initially it was fine because it was a small team of close knit people. They were people who I'd known either socially or I'd known through the businesses, they weren't just total strangers if you like. They were a very self-motivated group of people, so there wasn't a lot of need to actively manage what they were doing, day-in-day-out. It was a case of setting higher level goals and setting big picture tasks and then kind of letting people get on with it. As we've grown to a more significant level of staff and we've developed more of a structure, I've actively gone out to learn how to manage staff, I've done a lot of reading and courses. And that's important as it doesn't come naturally to me. And I definitely know I've made mistakes during that process. And I don't think I'm necessarily the best character to run large teams. (Charles)*

*Well managing people is as big a challenge as any when growing a business. Everything else can seem straight forward by comparison. And I've spent an increasing amount of time managing people. And dealing with various HR issues and regulations. I have a Chief Operations Officer now who does some of the managing of people so I can spend some time on strategy. (Peter)*

As was described in the 'Experience of graduate work' section of Chapter 4, Emily had gained considerable supervisory and management experience working in restaurants prior to starting her own business, the only participant to have such people management experience. However, despite feeling competent working as a manager in other people's businesses, she contrasted that to taking on the management role in her own business. She found the task of managing staff in her business more difficult, negotiating her role leading a small team who were tightly bonded.

*I'm really good at managing other people's teams. I was really good at managing someone else's restaurant. And I'm really good at telling other labels when things are going well or not going well in their own offices. But I think it's just really really tough [managing people when you start your own business]. I think when you're a small team like us you are like a family and you love each other and stuff...it's really tough. When do you be the boss, when*

*do you be their friend, when do you go out for a drink, you still have to be tough, when is it ok to shout, when is it becoming too emotional...because it is everything. It is your life. You have to have that commitment when it is your business, your future. It's a fine line...I find that really hard to manage between personal and professional, when you have a small team. I find that really difficult. I can manage other people's teams fine, but my own is much harder. (Emily)*

### **5.5.3 Managing Growth**

As the businesses grew, nearly all participants introduced more formal human resources structures and policies, although to differing degrees. This included implementing greater delegation, creating new teams and departments, performance management, developing reporting procedures, and new pay structures. Sometimes the entrepreneurs began running their business relatively informally, for instance employing friends or acquaintances, and did not introduce formal human resources procedures and policies as soon as a more experienced manager may have done. Adam, for example, said that the growth of his business meant that he had to change his own style of management, being less involved in all aspects of the business, recruiting good managers and delegating to them. Richard said that he had not introduced HR procedures such as appraisals as early as he might have done. As the businesses grew, founders often recalled a time when they had to start implementing new hierarchical arrangements and HR procedures (e.g. performance management and introducing departmental managers), such as in the case of Hamish.

*The business... has become a £65 million, 140 person employee business... And you become a very different sort of business person when you get an organisation that size. You manage people very differently. When you're starting up a business you want to know everything and you want to be involved with everything. And you reach that kind of critical point where it's impossible to do it. And you have to start letting some of the control go in the things you can and can't do [yourself] anymore. It's just a challenge moving forward to make sure you've got the right people in the business to manage that on your behalf because you just won't be able to do it. I reached that point about 12 months ago. (Adam)*

*I think one of the things we have probably taken a bit too long in doing is implementing staff appraisals and stuff like that. Because there is that stage where there is just half a dozen of you and you know what each other is doing and you don't really need that kind of stuff. But*

*as the company grew we needed to implement a structure around pay and things like that. Around six months ago we implemented a more structured pay system where there are four different levels and we put each person on a certain level. Those kind of things were hard to get advice about because there's no right way to do it. I think for doing accounts etc., there's a standard way to do these kind of things. But as you grow a small company, it's hard to find out about how to do these things best. (Richard)*

*I mean, when we were about 15 people, we realised that weekly meetings of everyone from all parts of the business were not really so effective anymore. We realised we needed more departmental meetings and put in departmental managers. And I mean that's where we are now really. And so we kind of learn as we go along. (Hamish)*

Nearly half of the participants expressed a strong interest in developing an appropriate organisational culture for their businesses, usually in the businesses which had experienced the most rapid growth in turnover. High growth generated challenges for the entrepreneurs, for example in maintaining a bootstrapping entrepreneurial culture as new staff joined the business. The interest in organizational culture demonstrates an intellectual awareness of the importance of developing an appropriate workplace environment, even where they may lack the experience and tacit know-how to manage people optimally. Young entrepreneurs often said they were keen to create an organizational culture in which they were personally happy to work, sometimes in response to their less enjoyable experiences working in other people's businesses prior to starting their ventures. As their businesses grew, and the young entrepreneurs had to take on people they knew less well, this created the additional challenge of maintaining the positive organisational culture they had sought to develop early on. Stephen discussed people management in a more positive light than many of the other participants, describing what his ideals were for the kind of company culture he had sought to create.

*But then every single person we have in the company, we feel our company is shared, and that they share the personalities, attributes and skills we look for. And they are the people that ultimately drive the value of the business. It's thanks to the amazing people working for us that this business is possible. I think that it's all about surrounding yourself with amazing people. Good people. People you trust. People who do good jobs. (Stephen)*

More typically, Alistair discussed the broader issues about maintaining an entrepreneurial culture once his business had grown to 60 members of staff. He said that as his business grew issues arose about maintaining the start-up culture: “it’s not all like a big club” anymore. He suggested that factors such as controlling expenses could be more difficult as the headcount grew. Whereas the role of people manager and recruitment generally appeared to become easier with experience as the businesses grew, creating an appropriate company culture seemed to become a greater issue as headcounts rose.

*And they don’t know why we do things as we do. And you try and integrate them and stuff, but you can easily see that getting out of control, once you’ve got 60, 80 staff and you’ve got an HR manager and stuff like that. Suddenly it’s too expensive, when it was ten or fifteen guys we’d hang out and we’d go to the pub sometimes after work for a drink and we’d all be on the same schedule. Now we’ve got people off having kids, people getting married, and they’re not all interested in socialising with us after work, it’s not all like a big club. That’s inevitable and it’s important that some of the other stuff doesn’t get lost in that process such as that they don’t care so much about work or being careful about expenses. (Alistair)*

So, people management appeared to be the hardest aspect of growing ventures for the majority of the entrepreneurs, particularly taking on the role of people manager, and then maintaining their desired company culture as their businesses experienced growth. Had the entrepreneurs had greater line-management experience prior to setting up their businesses, this human capital may have made them better able to take on management responsibilities.

Managing people on a day-to-day basis was an issue for the participants when they first started their business, partly due to lack of experience, but this was combined with having to manage people who were sometimes considerably older and more experienced in the workplace than they were. Participants generally dealt with these problems by learning how to manage through experience, but this was not seen as an easy thing to learn how to do. In a small minority of cases, senior managers were taken on specifically to take charge of the management of people, when the entrepreneur believed they had a weakness in this area.

The growth of the young entrepreneurs’ businesses raised issues about restructuring organisations and how to maintain an entrepreneurial culture as businesses grew and became more structured. While it was possible for the entrepreneurs to create appropriate structures

and procedures for their growing firms, maintaining an appropriate entrepreneurial culture as the headcount grew remained an ongoing challenge for many of the businesses.

## **5.6 Business Planning**

Planning here refers to the degree to which the entrepreneurs set goals for their businesses and then took structured steps to achieve them. Contrasting levels of planning were found between different participants, ranging from a structured approach to planning from early in the start-up process, through to an intuitive approach to running the business. Founders who had established their first main ventures without specific plans and goals, however, could usually recall a point or stage later on where they decided they must formalize the way they ran their businesses, even if this was two or three years after the initial start-up. The majority of participants had created a business plan at some point. The following business planning issues in the young entrepreneurs' ventures will be addressed: the stage at which formal business planning began; the thoroughness of business planning; and, scepticism about business planning.

Formal planning from a very early stage often arose partly from the wish to raise external investment. The introduction of more formal planning processes can significantly change the way the business works in practice (e.g. the introduction of an annual strategy and associated targets). However, the development of a 'business plan' document was sometimes seen as a means to get investment rather than as a tool to be used practically to manage the business, although there was some disagreement about this amongst participants. Even amongst participants who regarded a business plan as a tool mainly to gain investment, there was sometimes an acknowledgement of the benefit of having goals to understand where the business was heading, even if specific forecasts were not always well judged. Businesses at earlier stages of their development appeared less likely to have formal mechanisms in place to track performance (e.g. formalised targets) than older businesses in the sample.

The young entrepreneurs were sometimes able to gain access to knowledge and skills about strategy and performance through use of experienced non-executive directors, who had experience of building a larger company or had worked in a senior management role in a large organisation. Not surprisingly, older businesses were significantly more likely to have a board including non-executive directors than younger businesses (fifteen had non-executive directors, while six did not). Investment usually led to the development of a board including

non-executive directors. Gavin illustrated the kind of learning process the young entrepreneur may need to undergo to develop an understanding of the need for more business planning processes, particularly as their business gets bigger. This early lack of understanding reflects a lack of management knowledge (i.e. general human capital), but Gavin described elsewhere in the interview how his two non-executive directors with significant entrepreneurial and corporate experience had provided the advice and experience on how to formalize planning processes. He now managed his business relying considerably on performance indicators and data.

*So I've got no experience or corporate background. So I've had to learn what controls I need to implement in order to grow the business. So I've brought in a couple of non-executive directors who've got backgrounds running different companies. So now I've got all my KPIs in place. So every day I get a set of numbers which details their activity from my managers. And they feed into the weekly and monthly figures. And so I know what's going in and going out and I know if we've overspent on this, it's highlighted in red, so it can be addressed. All of these different controls you put into place. So now I'm running my business based on the data. Whereas before I might be asking my staff, saying what's been going on here, what's been going on there, and they might talk around it. Now I've got complete visibility. There's total transparency. The numbers don't lie. So yeah that's made a big difference. (Gavin)*

Amongst some founders, there was scepticism about the value of making financial projections for planning the business itself, since there may not be solid evidence to base them on. At the same time, they realised such financial projections were necessary to engage with potential investors. It is useful to return to the case of Emily's fundraising approach, that was considered from a slightly different perspective in the 'Finance' section of this chapter. Emily believed a business plan was a tool necessary to gain investment rather than something that provided realistic targets to aim towards, describing some of the predictions in her early business plan as "rubbish". She suggested that the targets her business worked towards in practice were relatively broad, but that having these broad goals could be motivational.

*Of course if you want to get any sort of funding you or anyone to support you, you have to have a business plan. It's like, it's a load of rubbish, you just make up the figures...music is*



*probably one of the most unpredictable industries in terms of income, where you'll make your money, sales and that kind of thing. But of course we try to be really realistic and probably weren't during the first year. The first couple of business plans were probably atrocious but they got us some investment somehow. But yes we do have figures which change all the time because when you're a new company they just do. I think it's really important that you set your standards out there about what you want to achieve. I think for us now it's more than just the figures, the first major thing for this year, for example, was getting to a point with our company where we could break even on our services and start to make profit on our long term investments in terms of assets...so things like copyright that we own, publishing that we own and stuff. I think we were really as simple as that, if we can break even in terms of what we're spending and bringing in in one area and make some profit in another, we'd be really happy with that for this year... So I think we do have figures, and it's not like we need to make £300,000 in this area, it's more kind of vague than that. But we have made targets that we know we want, and I think that works really well to motivate us and to keep us focused.* (Emily)

The performance criteria that a growing business is aiming to achieve are likely to change over time, according to Alex on Pathway 3. He described how initially key performance indicators would be partly about developing the product, but at his business's relatively mature stage of development, the main indicators had to be around profitability. He was also one of the most enthusiastic advocates of business planning. All three of the Pathway 3 participants who had raised venture capital funding adopted structured approaches to planning after obtaining their funding, reflecting partly the demands of their professional investors.

*For us, the KPIs at this stage should not be so much about the product but about how much money we are making. The idea that you would run the business without KPIs I think is crazy. If you're not monitoring, if you're not checking, I think that's a recipe for disaster. It shouldn't just be your opinion either. There needs to be objectives and targets.* (Alex)

Alistair was typical of businesses that had grown more organically in that the business initially grew without significant structures in place, although this changed over time. He discussed how his business had gradually put targets in place, and indicated that a significant motivation for more structured planning was the wish to sell the business in the future. Even

when introducing more formal plans and targets some participants still wished to keep aspects of their informal, intuitive approach to their businesses.

*I mean now we have much more of a structure in place, so we have a management team and we have a budgeting process, so we try and hit our targets each year, so there's that kind of structure to it. I guess we've probably thought of a price we might sell it for, can we get there by a certain time? (Alistair)*

Vicky said that the development of her business had been organic and gradual. Thus even after a year of running the business she did not foresee it as providing a long term full time income. Business planning at early stages of the business, “that kind of slow first two years”, was minimal partly because the young entrepreneur did not have long term ambitions for the business at that stage. The point at which business planning and structures started to become more serious for Vicky was when the business reached £1 million turnover, a point which coincided with a growing headcount and developing property leasing responsibilities. She described the current performance of the business as being due to “a lot of hard work and a lot of luck”. Even after several years of running his business, Peter said that his approach to business was quite intuitive.

*We had absolutely no aspirations even when we were about a year into the business, if you'd said this is what you'd be doing in five or six years time full time I'd still have laughed. But again I think that was the best way for us because everything was so organic... And we could have quite easily gone out and got investment and perhaps accelerated the growth, but I don't think we'd have learnt anything near as much because it would all have been a lot more scary had we gone down that route. But yeah that's something we always say to people at forums and stuff to people...we went into it without any ambitions and if we'd said we were going to do 'x,y,z', it just would have been too much pressure. So yeah we just went into it without any ambitions. I think when we got to £1 million turnover, we thought right we better start investing in staff, investing in premises. Because we were running it from our one bedroomed flat for the first year and a half... We don't really have a business plan, even still. We've obviously got our own goals, but they're not really down in concrete. Even now, we've had a consultancy in...we're definitely a lot more formalised now. But yeah probably up until about a year, two years ago, we had absolutely no business plan. We were very much just like we're going to enjoy this, run with it see where this goes. But now when we've*

*got the responsibilities of having staff, warehouses, leases, everything's got to be that bit more driven and focused. (Vicky)*

*Well we have a business plan and targets, but still [manage] quite intuitively really. (Peter)*

The majority of participants preferred to use an organic approach to starting their business without significant structures and business planning in place. Nevertheless, without exception they all recognised the need for goal setting and planning to some degree as their businesses grew. The decision to set goals, with various degrees of precision, and set a strategic direction for the businesses, was triggered by various factors depending on individual circumstances and preferences. Seeking investment and then responding to investors' demands was often a trigger for greater planning. A minority of participants believed more strongly that planning helped them grow their businesses, and appeared to enjoy planning more than others. Businesses that had grown organically, without external investment, sometimes found they needed to put stronger structures in place in order to prepare to sell their businesses.

## **5.7 Social Capital**

The social connections drawn upon by the young entrepreneurs in building their businesses were broad, ranging from family members to one-off meetings. It was noticeable how many of the founders' networks extended to entrepreneurs in sectors other than their own. Only a small minority of entrepreneurs started off with substantial work experience in the sector in which they subsequently started their businesses. Because the entrepreneurs usually did not bring many relevant contacts from previous work experience they needed to build their networks from scratch. This perhaps made them more open to connecting with and learning from other entrepreneurs outside their sector, taking on the explicit identity of an entrepreneur rather than simply a business person in their sector.

The majority of participants adopted a purposeful, instrumental approach to building their contacts, deliberately seeking out those who could assist them, rather than relying on circumstantial meetings. They also left formal networks that were no longer useful as their businesses grew. An instrumental approach was important, for example, where they needed to meet investors that were appropriate to their business, finding a mentor, or in finding appropriately qualified non-executive directors. Engaging such useful contacts enabled the

young entrepreneurs to draw on those people's human capital in building their businesses, demonstrating the reciprocal relationship between developing social and human capital. This section will show how the networks (i.e. trade associations, groups of entrepreneurs and business associations) the entrepreneurs took part in changed over time. It will also show how the range of people they took advice from changed over time, and the type of benefits particular types of social contacts offered them.

### **5.7.1 Networks**

Participants often started building their networks through attending local network groups either specifically for start-ups (e.g. Open Coffee Club) or otherwise local business networking groups (e.g. Chamber of Commerce), as Gavin described below. Such events enabled the young entrepreneurs to gain inspiration from successful entrepreneurial speakers, expand their nascent networks, and learn from fellow participants.

*I started off doing local Chartered Management Institute, Chambers, things like that.  
(Gavin)*

As their businesses grew and they gained experience, founders developed their networks in a variety of ways, reflecting their own and their businesses' particular development needs. Sometimes they wanted more contact with larger corporate businesses, for example through attending national Confederation of British Industry or Institute of Directors meetings. More commonly, however, they wanted to meet other entrepreneurs who had also built high growth businesses in groups such as Future 500. Hamish described how he began by attending networking opportunities aimed at start-up businesses, but as his business developed he believed he gained more useful learning opportunities by attending national conferences of major trade associations alongside larger businesses. He said that he was able to learn new things helpful to running his business by speaking to senior managers from larger businesses, who had experience of solving the problems his business was now facing at its current stage of growth or would face as it experienced further growth. Luke described in detail how his networks had dramatically changed from the start-up stages of his business to the time of interview (starting off talking to local businesses and ending up talking to internationally significant investors). His networks changed partly as a result of a belief that he would have more to learn in different networks as his business expanded and partly because his entrepreneurial achievements had given him the credibility to engage higher level contacts.

His international focus to building his networks is also brought out in this extract. Elsewhere in the interview, he also talked about contacts he had developed in Silicon Valley.

*When you start-up you start off going to start-up network events and you find the speakers really inspiring, and now we sometimes give that speech. And equally now where we get our inspiration from is kind of slightly higher level than that like meeting people at these big general conferences and giving our experience there. I mean it's always great to keep looking at what start-ups are doing better than you, but the problems we have are often the problems that bigger companies than us have already gone through so that is where our kind of learning comes from now... we do get benefit from speaking to people who've done more stuff than us that we can learn from. (Hamish)*

*It's [my contacts have] completely changed. At the start it was people who ran local businesses. Then the angel investors who'd built businesses before investing. And then kind of the top investors in the world. I'd say we've outgrown different advisors and investors. And the quality of the entrepreneurs that we attract has improved a lot as well. So it's been kind of like climbing up a ladder going to different people and advisors and entrepreneurs. (Luke)*

As well as sometimes looking for opportunities to talk to people in larger, corporate businesses, as the young entrepreneurs' businesses expanded, they were often keen to talk to growth entrepreneurs across a range of industries through networks such as The Future 500, Consumer Forum and the Entrepreneurs Organisation. Hamish said that he found it useful to talk to people from across a range of sectors in the Consumer Forum about how to develop "a fantastic customer experience". As Peter suggested, groupings of growth businesses across sectors, could also provide opportunities for the young entrepreneurs to exchange ideas with other businesses who were not their direct competitors but who had valuable experiences to share on a range of functional issues. He said that there was the potential for innovation to arise from such discussions. Matthew said he was part of the Entrepreneurs Organisation, where entrepreneurs with a turnover above \$1million meet in small groups each month to learn from one another in an open manner.

*Yes I'm part of a business network called The Future 500. I have found that helpful. They offer networking services and the opportunity to cross-fertilise ideas about business with a range of people from different industries who are running growth businesses. It has a range*

*of people such as fashion designers and architects, people whose businesses are very different. (Peter)*

*I'm part of a group called the Entrepreneurs Organisation. I think it has about 6000 members worldwide. The main benefit is that you meet with a group of entrepreneurs once per month. The same group of entrepreneurs to share your experience in quite a candid environment. So that's useful. (Matthew)*

Most participants were involved in some formal networks, but they were even more likely to participate in informal groups, often partly social, with other entrepreneurs. Sometimes entrepreneurs were part of such groupings as an alternative to attending more formal networks, but more commonly they did both. The closeness of these connections, often involving a mixture of friendship and business, meant they were more likely to involve regular interactions and bonding social capital than the less frequent interactions with people in formal networks. Adam said that he did not do a lot of formal business networking but that he did have a group of people he knew more informally who could give him feedback on his ideas.

*You kind of have a circle of people who you bounce ideas off. And that has changed over time. I tend not to do a lot of business networking. That's just because I don't have the time to do it. But I have a kind of series of close contacts and sort of bounce ideas off them, and we do the same for each other. That's always proved particularly useful. (Adam)*

A minority of the young entrepreneurs did not find attending formal networks helpful. For example, John regarded the trade association board he sat on as a 'talking shop'. Richard and Alistair did not enjoy many of the entrepreneurs' networking events they attended. Nevertheless this did not mean that they did not build strong and useful groups of business contacts to support the growth of their businesses, but that they found alternative routes to do this. Richard said that he eventually found a group of entrepreneurs from whom he could gain some of the benefits of networking, but on a more informal basis. Alistair did not like networking events, so he avoided them. However he did recognize the need for his business to be well networked. He described elsewhere in the interview how he had taken on as Chairman one of the most high profile and experienced entrepreneurs in his sector, giving him bridging access to a wide range of useful contacts.

*I used to be on the board of the [X Trade Association] in the UK, but I found it incredibly boring so I resigned. (John)*

*I find it hard to find other entrepreneurs who I can really go to and chat about things who are in the same situation as me. I actually have now found a group of people who I really get on with. But it's quite hard, because a lot of those things like meet-ups and stuff like that... I mean I used to go to a lot of them a few years ago. But a lot of the time, it's a big party and a bit of business. They're important for getting to know names of people, but you can't really have a full conversation. So you need to follow up afterwards to make a good connection. (Richard)*

*I try and avoid all that [networking] stuff really. (Alistair)*

### **5.7.2 Advice from Contacts**

Two thirds of the participants could point to one or more particular advisor(s) who they often described as 'mentors' in their entrepreneurial journey. Mentors were generally regarded by the entrepreneurs as providing support over a considerable period of time (i.e. more than a year). Such advisors were able to provide support to the entrepreneurs in a range of ways, including providing a second opinion, greater levels of entrepreneurial and/or business experience, a sounding board, emotional and psychological support and access to a wide network of contacts. Mentors could also sometimes act as role models to the participants. The term mentor was defined quite broadly by participants, and embodied different types of relationship between entrepreneur and advisor. Those described as mentors were often commercially interested in the young entrepreneurs' businesses (e.g. as non-executive directors or investors). As was explained above in the 'Finance' section, bringing investors on board in many of the businesses was not simply to provide finance, but usually also provided access to an experienced business person with considerable skills, knowledge and contacts, important to helping the young entrepreneurs' businesses to grow.

A significant number of participants received advice from family members at the early stages of starting their business (see the 'Family' section, Chapter 4). Some of these participants (e.g. Hamish and Alistair) regarded these experienced family members as providing on-going advice over a period of time. However, at later stages in their businesses' growth, these entrepreneurs recalled that they had to look beyond family members for more specific

expertise. Hamish and his co-founder were particularly fortunate as both of their fathers were able to provide advice (e.g. on finance) during the early years of the business. He pointed out that at his business's current stage of development he was now seeking to develop a non-executive board to provide the level of advice they needed to continue to grow.

*Warren and I both use our parents as kind of sounding boards. My dad is quite experienced in the finance side of things and Warren's dad has set up a few companies (all funded companies so not quite the same). But we've been able to get advice. But we're now at this stage looking to get experience from a non-executive board to help us grow to the next stage. (Hamish)*

Many participants agreed with Emily's statement that, "mentors are really, really important". Emily confirmed that mentoring was still very necessary at her business's current stage (just over three years after start-up).

*We had an angel investor who invested in our company at the beginning. He certainly has been a mentor and through him we've met some amazing people. I think it's really important to have mentors. I think it's important to have your own opinions and not to be swayed by them because the reason that your business is new and different is because you've got your own ideas. But I think it's fantastic to run new ideas past them because they can be really tough and pull things to pieces and drop a bombshell and it strengthens your ideas or makes you readjust and start again. (Emily)*

Gavin was the only founder to have a government-funded Business Link mentor. He suggested that he had gained some benefit from this mentor initially, but questioned the extent to which they could provide helpful advice as his business grew larger, given they did not have entrepreneurial experience themselves. At the time of the interview, he had moved on from using a Business Link mentor and now relied on mentoring from his non-executive directors (one with corporate experience from working in a large business, the other with entrepreneurial experience). He particularly noted the role of his non-executive directors in helping develop strategy. He illustrated how the mentoring needs of young entrepreneurs changed over time, as they gained experience and their businesses developed.

*I started off having a mentor funded by the government, through the start-up support you get. That was ok, but it got me to a certain point. But these are basically people who are being*



*employed to give consultancy and advice to businesses. But the issue with that is, have they been there and done it, why do they need to get paid a living now? And then I had a business coach, it got me to a certain level. And the position I'm at now is that I've got people [two non-executive directors] who have been there and done it. It's not a money thing necessarily. That's the difference...They're people who hold me accountable to what I say I'm going to do in the business plan. They work with me on strategy. They act as my advisors. They're at the other end of the phone. Prior to that, you have different levels. Some people can take you so far. I'm a big believer in mentors. (Gavin)*

Entrepreneurs used the specific expertise of their mentors to seek advice about particular aspects of the business. Gavin above, called on his mentors for advice about developing his business strategy, and to hold him to account for its implementation. Charles below, looked for particular functional advice from his mentor. He said that he had been mentored by a senior banking executive with significant functional experience in human resources, rather than a mentor with entrepreneurial experience. He also clearly illustrated that when entrepreneurs are in a constructive mentoring relationship they benefit not only by receiving specific advice about current issues, but can learn new skills from their mentor, applying these to their businesses.

*And then I found a mentor, a guy I knew personally through some charity involvement. He was a senior figure in HR for [Global Bank], now doing some consultancy. I've spent a lot of time with him over the past couple of years, in terms of my own personal development and the development of those skills. And what was really nice is that he was able to tailor the training to exactly what I wanted and I needed, not like having 20 people in the room. (Charles)*

Just under half of the participants also described how they were either mentoring, advising and/or investing in other young entrepreneurs' businesses. Some participants were doing this out of good will, while others were partly advising for commercial reasons (e.g. they had made an investment in a nascent business). This evidence reinforces the value young entrepreneurs placed upon learning from others' direct experience (i.e. learning from practical experience), since they not only took advice, but are also willing to give their own valuable time to this activity. The participants often seemed to really enjoy encouraging other entrepreneurs just starting out, as well as sometimes benefiting from having financial

links to these new businesses. Thomas and Emily, in particular, outlined the importance that they placed on mentoring young people at different ages about entrepreneurship, whether in schools or entrepreneurs at the stage of starting their own businesses.

*I've bought one business recently and there's a young guy in there that I'm kind of mentoring yeah. (Thomas)*

*And then also there's two girls recently who are starting on a very similar path to us and they come in once a week and just pick our brains and work with us. (Emily)*

So, building an appropriate group of business contacts was important to all of the participants. They usually adopted an instrumental approach to networking at least in part, not relying purely on circumstantial meetings, but actively arranging to make connections with people who could be important to their business. The young entrepreneurs often attended local formal networking groups, particularly at an early stage in the business, but if they continued to attend networks, the type of groups attended tended to change over time. The changes in networks attended reflected the entrepreneurs' understanding that they needed to identify appropriate contacts for the stage of growth their business had reached and also the future direction of the business. All participants had some informal close connections with other entrepreneurs, even in the minority of cases where they did not attend formal networks. Networks provided the young entrepreneurs with a wide variety of benefits, including opportunities to meet investors, suppliers, mentors and advisors, and non-executive directors, as well as developing their knowledge of their own sectors and of business functions more generally. Participants placed great value on the advice they received from experienced entrepreneurs, but they also sometimes sought advice from senior corporate managers as well, for example to learn how to deal with particular functional issues as their business expanded. Their willingness to spend time themselves advising less experienced entrepreneurs further demonstrated the significance they placed on this kind of advice.

## **5.8 Conclusion**

The young entrepreneurs usually discovered their entrepreneurial opportunity through pursuing a hobby or interest rather than from work experience or a wide ranging search for an opportunity. Nearly half of participants had a co-founder, which enabled the young entrepreneurs to access a greater stock of human capital than one founder alone would

provide. Even low level work experience, together with informal venturing experience, often provided participants with some valuable customer service or sales experience. Equally, participants learned about marketing and sales as they started and grew their businesses, with this function usually being controlled by the founders rather than requiring significant external support. By contrast, finance was not an area where the participants or their co-founders brought significant knowledge and experience when they started their businesses (e.g. no participant had completed a professional finance qualification nor had they been in a specifically financial job), and book-keeping and accounting expertise was often obtained from outside the business. Over time, the founders often employed specialist financial staff, to carry out financial management functions in their ventures. People management was the area of the business where the young entrepreneurs struggled the most, with only one participant having significant people management experience before starting their first main venture. Participants encountered a number of challenges, such as recruiting staff and some found particular challenges in maintaining an entrepreneurial, bootstrapping culture as their businesses experienced significant growth in turnover and headcount.

Most participants started off with a desire to build their business using an intuitive approach, but later recognised the need to implement more planning, structures and processes. Recruiting investors and/or non-executive directors helped to precipitate greater levels of planning and specific goal setting. Without significant management experience and previous experience of building high growth firms, the entrepreneurs gained access to the knowledge and understanding about how to implement structure (e.g. appraisal management) from these advisors. Non-executive directors and advisors did not simply 'tell' participants what to do, however, but often taught them how to perform new skills themselves. This meant that some of the young entrepreneurs described their non-executive directors as mentors, despite the fact that they had a commercial interest in the business. The young entrepreneurs built their own group of contacts instrumentally in most cases, changing the formal networks they attended and the people they took advice from over time according to the needs of their business at its specific stage of growth.

## CHAPTER 6: DISCUSSION

The overall research aim for this thesis has been to understand the knowledge and skills which young entrepreneurs use to start-up and build their businesses. Chapter Four considered how the participants developed relevant skills and knowledge to begin their first main ventures through their family backgrounds, and their participation in education, informal ventures and work. Chapter Five considered the skills and knowledge the young entrepreneurs used to build their businesses in terms of opportunity recognition, marketing, finance, people management, business planning and social capital. This chapter will analyse these findings in relation to the existing literature, to answer the thesis research questions. The first three questions to be answered will relate directly to the empirical results in the findings chapters. The answer to Question 4 will draw together what has been learned about young entrepreneurs in relation to human capital theory, and outline some new theoretical and empirical ideas that arise from having carried out this research.

As was outlined in the literature review, in common with Bosma et al's (2004) study of start-ups, human capital in this study will be classified in three ways: general human capital; venture-specific human capital (sometimes called industry-specific human capital); or, entrepreneurship-specific human capital. General human capital is the knowledge, skills and attributes developed by an individual which can be used as both an employee or an entrepreneur, and can be developed in any sector of the economy. It can be developed through education and work. Entrepreneurship-specific human capital is the knowledge, skills and attributes developed by an individual which are specifically useful to being an entrepreneur, in particular business ownership experience. Venture-specific human capital is experience gained either as an employee or an entrepreneur in the same sector as the new start-up.

The three different human capital pathways identified in this study have been laid out at the beginning of Chapter 4. Throughout this Discussion chapter, the pathways typology will be used in order to draw similarities and differences between the young entrepreneurs' knowledge and skills before starting their businesses and how this impacted on the venture creation process. Despite the difference in the quantity and quality of pre-start-up human capital gained by different young entrepreneurs, however, Question 4 will demonstrate that they all did gain certain *necessary* human capital in order to build their businesses. Question

4 will re-introduce the conceptual framework as outlined at the end of the Literature Review, and show the contributions that have been made to it as a result of this thesis.

## **6.1 Pre-Start-Up Human Capital**

**Research Question 1: What useful knowledge and skills do the young entrepreneurs believe they developed prior to starting their first main ventures?**

### **6.1.1 Family**

The entrepreneurship literature, including research focused on human capital, has recognised that family background plays a role in entrepreneurs' development (Ucbasaran et al, 2006; Aldrich and Kim, 2007; Kempster and Cope, 2010). It has been recognised by some researchers, however, that the full impact of the socialisation process upon entrepreneurs has not been studied in-depth (Kirkwood, 2007; Jones and Jayawarna, 2011). The key focus for entrepreneurship research into the family has been the influence of parental occupation on their child's decision to become an entrepreneur (Ucbasaran et al, 2006; Blanchflower and Oswald, 2009). A smaller number of sociological studies have analysed the various tangible and intangible resources parents provide for their children (e.g. Aldrich and Kim, 2007; MacDonald and Coffield, 1991).

This study found in common with previous studies (e.g. Cooper et al, 1994; Davidson and Honig, 2003; McLarty, 2005; Blanchflower and Oswald, 2007; Kirkwood, 2007) that having an entrepreneurial parent was associated positively with a child becoming an entrepreneur. It is also notable, however, that for two participants it was a non-parental family member that provided the entrepreneurial role model when the young entrepreneurs were growing up, something not usually measured in human capital studies. This shows that family influence should not always be assumed to be parental influence. Two participants with self-employed parents, however, made clear that they did not consider their parents to be entrepreneurial or to have had a significant impact on their entrepreneurial careers. So, human capital studies should consider measuring specifically whether a parent has been an entrepreneur rather than simply self-employed (e.g. the financial size of the business the parent ran and/or the number of people it employed), and also whether other family members have been entrepreneurs, particularly if the entrepreneur believes they have been influential. It is also notable that all participants in the study recalled reading the biographies of well known entrepreneurs at

some point in their lives, and for participants without an entrepreneurial family member, this often proved to be one of their earliest points of access pre-start-up to an entrepreneurial role model.

This research has considered various ways in which parents influenced young entrepreneurs while they were growing up (building on Kirkwood, 2007 and Aldrich and Kim, 2007), rather than simply finding that a high proportion of them had self-employed parents as previous human capital studies have often found. The seven participants with entrepreneurial parents, and the two participants who had other family members who were entrepreneurs, usually spoke of them as providing inspiration and sometimes as role models when they were growing up. However, there is little evidence that entrepreneurial parents specifically advise their children that they should become entrepreneurs in the existing literature (Kirkwood, 2007). Young entrepreneurs in this study, similarly, rarely recalled direct advice or strong encouragement to become an entrepreneur by parents from any occupation. In fact it was only one participant with a non-entrepreneurial parent (Charles) whose parent had directly advised and encouraged him to become an entrepreneur. No participant with entrepreneurial parents recalled this happening. So, the desire to follow an entrepreneurial career for participants in this study came from growing up with an entrepreneurial role model rather than from explicit career advice, where participants had entrepreneurial parents. What both entrepreneurial and non-entrepreneurial parents provided more commonly was encouragement to their children to develop their talents and to follow their own career ambitions whatever they may be. Only two participants recalled negative advice from parents, that they should not become entrepreneurs.

MacDonald and Coffield (1991) found that young middle class entrepreneurs in their study often benefited from parental financial support (e.g. guaranteeing bank loans). They also found much evidence of in-kind support (e.g. providing free bed and board to children while they were setting up their businesses). By contrast, Aldrich and Kim's (2007) study, drawing on a considerably larger data-set, found there was little evidence of direct investment by parents into their entrepreneurial children's businesses, although they supported the idea that parents could provide useful in-kind support. In this study, the family provision of tangible resources was generally in terms of in-kind support rather than through direct financial investment. The development of the internet economy has in some ways made it less expensive to start a business at the very beginning (Kawasaki, 2004) when young

entrepreneurs are likely to have least ability to raise investment apart from through friends and family.

Aldrich and Kim (2007) have suggested that children can gain particular benefits from their parents when they have followed particular professional occupations, not simply when they have been entrepreneurs. It was clear that where parents in this study had relevant business or professional knowledge (e.g. accountancy and IT), their children often benefited through learning relevant knowledge and skills from them (e.g. IT or financial skills). Furthermore, parents with relevant business or professional experience were found to act as significant sources of business and technical advice during the start-up and early development of the business. In a minority of cases this extended into the provision of business services (e.g. book-keeping and accountancy) to the young entrepreneurs' businesses.

### **6.1.2 Education**

Studies of human capital have generally recorded the highest level of education achieved as a quantitative measure of an entrepreneur's educational attainment (Ucbasaran et al, 2006). Formal education is seen as a major source of developing general human capital, and as developing some relevant personal attributes (e.g. self-discipline, motivation) (Becker, 1975; Cooper et al, 1994). This study provides more precise evidence about what human capital the young entrepreneurs obtained from their formal education than earlier quantitative studies. Participants were more likely to recall having gained important knowledge and skills from the last stage of education they completed. For example, participants who had completed only GCSEs, said that they had provided important numeracy and literacy skills before they started their businesses. Participants who had completed education to A-level standard were more likely to recall a benefit from studying vocational A-levels, such as Business Studies and Economics, rather than from GCSEs or earlier education. Participants who went to university generally believed they had gained the most relevant human capital for their entrepreneurial career during this stage of education rather than during earlier levels, although this did depend whether they had studied a relevant subject there (e.g. Business Studies, Law or Psychology). The fact that some participants did recall what was learned and valued at each stage of formal education does identify more precisely education's entrepreneurial benefits compared to previous human capital studies. Other such studies have tended only to statistically record the last level of education completed.

Some studies (e.g. Evans and Leighton, 1989; Davidsson and Honig, 2003) have found correlations between having more years in education, or a higher qualification achieved, and being more likely to set up a business. Kourilsky and Walstad's (2007) research suggested that whereas high school students perceived having higher levels of education as being an important investment for becoming an entrepreneur, actual business owners did not. The evidence from this study has shown that no participants found any of their educational experiences to have inspired them to consider an entrepreneurial career, but some young entrepreneurs recognised that school had taught them necessary knowledge and skills. A contribution is made here to the existing human capital literature, since previous studies have not identified what specific knowledge and skills learned at school may assist an entrepreneurial career. Those two Pathway 1 participants who only studied up to GCSE level said explicitly that having a basic education to this level was important to starting their businesses, but that they did not believe they lacked necessary knowledge and skills by not having completed higher levels of education. These two participants stressed that they had performed well at GCSE level, and believed that having good numeracy and literacy skills did help an entrepreneurial career. This suggests that these participants had the ability to proceed further with their formal education, demonstrated by their GCSE performance, if they had wished to. The fact that they left formal education after GCSEs reflected a decision to do so, not an inability to succeed at A-level. This illustrates a weakness in the quantitative measurement of educational achievement in human capital studies. Measuring the highest level of educational qualification achieved, or years in education, does not identify that it may be the educational attainment or aptitude of entrepreneurs that is important in providing human capital to perform well as entrepreneurs, rather than the level of education achieved. People who perform well at GCSE level are more likely to go on to study for A-levels (and possibly degrees) than those who perform poorly. But the results of this study show that having the necessary levels of aptitude, together with good attainment at a basic level of education, provides the human capital for some young people to perform well as entrepreneurs.

Beyond GCSE level education, vocational A-levels relevant to entrepreneurship were believed to be most useful to pursuing an entrepreneurial career, because of the contextually relevant knowledge they provided (e.g. a knowledge of the principles of business from business studies, or a knowledge of psychology used by young entrepreneurs to understand



the psychology of selling). Participants did not identify enterprise skills as being delivered by their school education. Chell and Athayde's (2010) recent work has suggested such skills could be developed there (e.g. leadership skills, self-efficacy). However, Chell and Athayde (2010) also record that the growth in the teaching of such enterprise skills in many schools occurred in recent years (i.e. since participants in this study had left school). They also point out that for enterprise skills to be taken on board by pupils and subsequently applied to entrepreneurial ventures, they may also need to be taught specifically in an entrepreneurial or business context (e.g. learning mathematical skills may be seen as irrelevant to fulfilling the financial requirements of running a business unless they are taught at least partly in a business finance context). This study has demonstrated that having a basic level of education was believed to be important by participants to starting their businesses, but that school was not seen as providing an entrepreneurial context for developing relevant skills and inspiration for starting a business.

This study has investigated the ways in which young graduate entrepreneurs believe that their degrees contributed to their human capital (Pathway 2 and 3 participants). In addition, it contrasts these perceptions with those of non-graduate entrepreneurs (Pathway 1 participants) about the relative merits of going to university or starting their businesses earlier. University was perceived by the majority of attendees as somewhat helpful to becoming an entrepreneur due to relevant knowledge and skills learned there, rather than their passion having been ignited for entrepreneurship through their university studies. Family and informal venturing were perceived as more important learning devices and motivators. All but one of the Pathway 1 participants (i.e. those who did not go to university) set up a business either before the end of school or within a year of leaving. No Pathway 1 participant believed they could have not gained access to any university, and two specifically recalled turning down prestigious university places to start their business instead.

Zott and Huy (2007) have suggested that having a university qualification from a prestigious university can have a symbolic value for entrepreneurs at an early stage of building their businesses, giving them credibility (e.g. with investors). Similarly, Ucbasaran et al (2008) suggested that entrepreneurs having higher levels of education gave the impression of their 'innate productivity' to potential stakeholders in a business. However, being young and so not taken seriously (e.g. because they lacked experience), was a more significant disadvantage from the perspective of Pathway 1 young entrepreneurs rather than not having

attended university. In fact, some of those participants who did not go to university felt that attending university would have held back the progression of their entrepreneurial development and achievements. They indicated that they had instead developed both a mixture of general, venture-specific and entrepreneurship-specific human capital in starting their businesses instead of going to university. One of the two participants who set up their first main ventures while still at school but also went to university (Matthew) ended up quitting before his final year, as he believed that university could not offer him anything extra. The majority of participants who went to university believed it had had some positive effect either through their studies or extra-curricular activities, though four participants were more pessimistic that attending university had helped them at all with their entrepreneurial careers. There was also some recognition among those who went to university that had they acquired useful skills such as problem solving, analysis and how to construct an argument. What this study has found, and will be explored later in the 'Work' and 'Finance' sections is that those participants who went to university were successful in gaining venture capital funding. Also, participants on Pathway 3 with graduate work experience often recalled specific benefits they had obtained for starting their business by having this more sophisticated graduate work experience. Those participants would probably have not got that sophisticated work experience at such a young age without having their degrees to gain access to graduate work programmes. However, Pathway 1 participants never recalled that they had missed out on getting venture capital funding due to not going to university, nor that they had missed out from having not had graduate work experience.

While previous studies have suggested that having higher education benefits entrepreneurial performance (e.g. Gimeno et al, 1997; Pickernell et al 2011), this study makes a contribution in more precisely understanding what it is that higher education offers entrepreneurial graduates. Participants who went to university generally chose vocational subjects, although only two studied business studies. Two participants gained some knowledge of entrepreneurship at university by studying relevant business modules, and two participants developed some relevant knowledge and skills by participating in entrepreneurship extra-curricular activities. Whereas Gimeno et al (1997) have suggested there may be a performance benefit to entrepreneurs from going to university, this study would suggest that there is a 'trade off' for the participants. Learning contextually relevant knowledge, in Business Studies or another relevant vocational degree, may be helpful to starting a business.

But participants who did not go to university were able to recall specific skills and knowledge development which they had gained through starting their entrepreneurial careers earlier than if they had gone to university (i.e. experiential learning 'on the job').

There is limited evidence to specifically analyse the role of entrepreneurship education as only two participants studied it, both as small parts of broader business studies degrees. This makes it difficult to assess what kinds of entrepreneurship education might be most useful. It is interesting, however, that two other participants who attended student entrepreneurship societies both were positive about the role they could play in developing young entrepreneurs, and this may be a useful focus for further research. Such societies encourage the practical learning of entrepreneurial skills which the participants found more useful to their entrepreneurial careers compared to the didactic education often received in formal education. This appreciation for practical entrepreneurial learning in these societies also partially supports Gibb's (2002) assertion that entrepreneurship should be taught through practical exercises such as drama, simulations, projects and games, rather than only being delivered through didactic methods.

### **6.1.3 Informal Ventures**

Young people's informal ventures have not been considered in previous human capital studies, nor in other areas of entrepreneurship research. For example, this issue was not addressed in Aldrich and Kim's (2007) extensive review of literature on the socialisation of entrepreneurs during childhood and teenage years, nor in studies of young entrepreneurs (e.g. Lewis and Harris, 2006; Kourilsky and Walstad, 2007; Rouse, 2004). Informal venturing was discovered inductively in this study as a theme arising from the experiences of the young entrepreneurs themselves, and is thus a distinct contribution to the entrepreneurship literature. Participants clearly placed importance on these experiences and talked about them longer and in more detail than their school experiences in relationship to entrepreneurship.

Fifteen out of 21 participants took part in informal ventures. Informal ventures enable the researcher to more fully understand the development of human capital amongst the young entrepreneurs, as the knowledge and skills gained through informal venturing appeared to be more significant to the actors themselves than school and sometimes as significant as family influence. For most participants, their pre-start-up human capital development cannot be adequately understood without an appreciation of their informal venturing experience,

especially participants on Pathway 1 (and sometimes Pathway 2) with the most limited work experience. Given that informal ventures have not been identified elsewhere in the entrepreneurship research literature, it is interesting that they are identified as important learning experiences in the biographies of some famous entrepreneurs who started their first main ventures at a young age (e.g. the biographies of James Caan (2008) and Richard Branson (1999)).

The existing human capital literature has considered how entrepreneurs' accumulation of conventional entrepreneurial and work experience as an adult may contribute to the performance of future ventures they set up (Gimeno et al, 1997; Ucbasaran et al, 2006; Wiklund and Shepherd, 2003). Informal venturing plays a greater role in the pathways of those young entrepreneurs who started a business without graduate work experience (i.e. Pathway 1 and 2 participants). So Pathway 3 entrepreneurs, starting businesses a little older, were less likely to have taken part in informal venturing than those on Pathways 1 and 2. They also had more significant work experience (usually on graduate work programmes) than participants on Pathways 1 and 2, so giving them a broader experience of work before starting their first main ventures.

Informal venturing may provide some of the benefits that conventional work experience and business ownership experience offer people starting businesses at an older age, providing some general human capital and entrepreneurship-specific human capital development. Informal ventures enable the young entrepreneurs to demonstrate the ability to identify and pursue business opportunities, a key aspect of entrepreneurship-specific human capital (Ucbasaran et al, 2006). Key skills developed through informal venturing varied but included selling, marketing, communication skills, plus sometimes negotiation, business planning and purchasing. For the six participants who set up their first main venture in the same sector as their informal ventures, they also gained some venture-specific human capital (i.e. "an entrepreneur's knowledge of the venture domain relating to customers, suppliers, products and services" (Ucbasaran et al, 2006: 29)). For example, Joel recalled developing an understanding of the music industry through his informal venturing (running club nights), while Richard gained programming skills which he then used to set up his first main venture (a web development agency).

The informal ventures varied greatly in scale and sophistication, depending on factors such as the age at which they were set up and the particular interests of the entrepreneur who created them, so the human capital developed through running them varied considerably between entrepreneurs. Sometimes the informal ventures were conducted serially and with more sophistication as the young entrepreneur developed, starting either at primary school or early in the teens. The majority of participants conducted their informal ventures in high school, although two participants started their first informal venture while still in primary school. Opportunity recognition in this type of venture is often age related (e.g. selling sweets at primary school) and more sophisticated products or services in the teens (e.g. selling designer clothes to classmates or designing websites for local businesses).

There are of course limitations to the human capital development that informal venturing can provide compared to conventional entrepreneurship-specific human capital (Ucbasaran et al, 2006; Shane, 2003). Given the variations in the sophistication of the informal ventures, different participants gained different human capital by setting them up. None of the informal ventures involved the management of people, which turned out to be the area which the most founders struggled with when they set up of their first main ventures.

Pathway 1 and 2 young entrepreneurs attributed an important role in their overall entrepreneurial development to informal venturing. This suggests that entrepreneurship educators should consider what they can learn from this activity in designing dynamic, experiential curriculums. Gibb (2002: 259) suggests that the following entrepreneurial behaviours should be taught in entrepreneurship education: “seeking opportunities; taking initiatives acting independently; persuading/influencing others; making things happen; negotiating a deal; taking decisions; presenting confidently”. Informal venturing can provide real life experience for developing such behaviours at an appropriate level for young people. It is getting real life experience of practising these skills that the young entrepreneurs consistently said was most important rather than learning them about through lectures in the classroom. Hence informal ventures are of value in illustrating to entrepreneurship educators some of the entrepreneurial knowledge, experiences and behaviours they might seek to replicate in an educational context.

#### 6.1.4 Non-Graduate and Graduate Work

Human capital studies have examined both the impact of general work experience, and management work experience in particular, on the subsequent performance of a person setting up their own business. Human capital studies have looked at general work experience in terms of number of years in full-time employment or number of jobs held (Gimeno et al, 1997; Davidsson and Honig, 2003). Gimeno et al (1997) found that having two to four jobs led entrepreneurs to perform better than having more or fewer jobs. Yet Davidsson and Honig (2003) found no relationship between number of years worked and nascent entrepreneurial performance in terms of achieving first sale or profitability. In general quantitative studies have measured the *quantity* of work experience, rather than its *quality*, although Ucbasaran et al (2006) did attempt to measure the quality of managerial experience by asking their participants about the level of their management experience (e.g. supervisory or more senior management experience). The quantitative human capital literature, while effective at identifying whether associations exist between work experience and aspects of subsequent entrepreneurial performance, does not analyse precisely why work may be linked to performance (i.e. the nature of the relationship). By contrast this research has been able to establish the contributions participants believed particular types of work experience had made to starting and building their first main ventures.

As a qualitative study, this research provides greater insight than previous quantitative human capital studies into the precise knowledge and skills which the entrepreneurs developed during their work experience. Participants were considerably more likely to recall gaining appropriate experience in the areas of marketing, customer service and selling compared to either people management or finance. Most non-graduate and all graduate work experience was in the private sector rather than the public sector. In practice, work experience played different roles for different participants in this study, in particular depending on whether or not it was graduate or non-graduate work experience. This distinction between graduate and non-graduate work experience has not been addressed extensively in the entrepreneurship human capital literature, although Pickernell et al (2011) do consider the impact on entrepreneurial performance of being a graduate compared to being a non-graduate (though not specifically relating their study to young entrepreneurs).

Non-graduate and graduate work experience generally differed significantly in structure. Non-graduate work experience was usually part-time and/or short term, but graduate work experience was full-time and lasted up to four years. Twenty out of 21 participants undertook non-graduate work experience, but six of these also had graduate work experience as well. Those participants with only non-graduate experience generally started their businesses younger and undertook their work experience while still at school or undertaking an undergraduate degree (i.e. those graduates who started a business during university or straight after). So, undertaking non-graduate work experience for a longer period than most participants in this study may yield greater benefits when starting a business. Non-graduate work experience was usually undertaken to provide a short-term supplementary income, hence work opportunities were not generally selected to fit with the long term career goals of participants. Hospitality and retailing were the most common types of non-graduate work experience. It is notable, though, that most of the work experience did enable the founders to interact with customers, and Vicky, for example, recalled the importance of learning customer service skills working in the hospitality sector before starting her online retail business. For some participants who did not go to university, a combination of non-graduate work experience and informal venturing experience was recalled as being helpful in enabling them to start their businesses. Jones and Jayawarna, similarly, argue that work experience during teenage years should not be regarded as insignificant to a future entrepreneurial career: “Work experience seems to capture a large part of the impact of human capital... experience from spare-time work during adolescence is significantly related to entrepreneurial potential” (2011: 10).

Pickernell et al found that, “Graduate entrepreneurs [compared to non-graduate entrepreneurs] seem to exhibit greater ability to access knowledge from a range of sources, with particularly strong ability for accessing government resources (both advice and national/international procurement contracts). In addition, they are also more likely to access university advice and more informal sources of advice (e.g. from family and friends)” (12: 2011). However, Pickernell et al’s (2011) study does not identify whether the university experience or the graduate work experience was most important in allowing graduate entrepreneurs to perform better than non-graduates in these activities. Participants with graduate work experience in this study recalled greater benefits to starting their business than those with only non-graduate work in most cases. It was usually the graduate work

experience rather than the experience of university itself which the Pathway 3 young entrepreneurs recalled as being most beneficial. While participants with non-graduate work experience benefited from the quite basic human capital Adam called learning “common sense” about business (e.g. elementary customer care skills), those with full time, longer-term graduate work experience identified higher level knowledge and skills (e.g. learning about organisational culture and problem solving). The integration and complementarity of different forms of human capital can be seen, since most of those with graduate work experience would not have gained that higher level work experience (in particular the corporate graduate work schemes that many participants entered), at that young age, without having a degree. So, their university-level education was an important gate-opener, regardless of the direct entrepreneurial benefits of studying at university.

Most of the non-graduate and graduate work experience undertaken by participants involved the accumulation of general human capital rather than venture-specific human capital (Mosey and Wright, 2007). Only four participants in this study started their first main venture in the same sector as their previous work experience (Charles, Robert, John and Alex). By contrast, Lewis’s (2009) study of older young entrepreneurs (i.e. they more often started their businesses in their mid to late twenties) found that most participants started up their first business in the same sector as their previous work experience. More broadly across the entrepreneurial population, having venture-specific human capital has been found to benefit entrepreneurial performance more than having general human capital (Bosma et al, 2004). Most participants in this study did not gain sectorally relevant work experience for their first main ventures through working for other people. Yet it is worth noting that six participants did start their venture in the same sector as their informal ventures, so gaining venture-specific human capital this way. Only one participant had worked for someone else and run an informal venture in the same sector as his first main venture. So, nine participants in this study could be said to have venture-specific human capital arising from either work or informal venturing experience.

Studies by Cooper et al (1994), Ucbasaran et al (2006) and Gimeno et al (1997) have not consistently found that having management experience improves subsequent entrepreneurial performance. Ucbasaran et al (2006) point out that it may be the quality of management experience that is most important rather than simply the time spent in such managerial roles (e.g. the hierarchical position at which managerial experience is gained in an organisation).



Compared to the existing human capital literature, managerial human capital was very uncommon amongst young entrepreneurs in this study, with only one having people management experience. By contrast, 71% of participants had supervisory or management experience in Ucbasaran et al's (2006) study. It is notable in this study, however, that those with graduate work experience were more likely than those on Pathways 1 and 2 to recall gaining benefit from watching how managers in the organisations where they worked took decisions (i.e. learning vicariously from managers in the businesses they worked in). Participants with graduate work experience also said that they had learned about organisational culture and procedures from their graduate work experience more frequently than those participants with non-graduate work experience.

#### **6.1.5 Summary: Answer to Research Question 1**

This study has introduced the concept of pathways as an analytical tool to show that young entrepreneurs develop different stocks of human capital prior to starting their first main ventures. In fact, the only experience that all participants have gained through the same means is a compulsory school education up to the age of 16. While all participants did grow up in a family environment, rather than in care, for instance, the socialisation they received, particularly in regards to pursuing an entrepreneurial career, differed significantly between them. Human capital studies have not generally recorded with precision how families may influence entrepreneurs, but only considered whether entrepreneurs have self-employed parents. By contrast, this study shows that the socialisation experience can include: entrepreneurial family members providing role-modelling and inspiration to their children to follow their career path; general encouragement to follow career ambitions or more specific advice; and, the provision of tangible and/or intangible resources.

This study would suggest that the influence of education upon young entrepreneurs is mixed. The pathways concept demonstrates the advantages and disadvantages (or trade-offs) of pursuing particular levels of education. For example, Pathway 1 participants were able to start their businesses youngest and develop on-the-job experience of being an entrepreneur while other young entrepreneurs were still pursuing degrees. But if participants followed relevant vocational degrees, they often recalled that they brought useful higher level skills and knowledge to their businesses. Pathway 3 participants were often more positive about the benefits of their graduate work to starting their businesses than their degrees. Yet,

without their degrees, they would not have gained access to this higher level work experience at such a young age.

Introducing the new human capital factor, informal venturing, provides an explanation as to how young entrepreneurs may gain venture-specific and entrepreneurship-specific human capital prior to start-up. More participants gained venture-specific human capital from their informal venturing than from work experience. Informal venturing also provided one explanation of how the young entrepreneurs began to develop nascent entrepreneurial skills in many cases several years before they started their high performing first main ventures. Informal ventures provided a form of entrepreneurship-specific human capital, even in the cases where they did not provide venture-specific human capital (i.e. they always provide entrepreneurial skills development for the young entrepreneur even when the informal venture is not in the same sector as the first main venture).

For understanding young entrepreneurs' development, it was important to consider non-graduate and graduate work separately, because it appeared that graduate work allowed participants to develop higher level knowledge and skills more readily than through non-graduate work in order to start their first main ventures. This would suggest that human capital studies need to identify further ways to measure the quality of work experience rather than only its quantity.

Despite the differences in the quantity and quality of pre-start-up human capital gained by different young entrepreneurs, however, Question 4 will demonstrate that they all did acquire certain *necessary* human capital in order to build their businesses. For instance, all participants ultimately gained access to an entrepreneurial role model who inspired them in building their business, even if they did not have an entrepreneurial family member (e.g. through find a mentor and/or reading the biographies of entrepreneurs).

## 6.2 Building First Main Ventures

**Research Question 2: In what ways do the young entrepreneurs utilise their existing knowledge and skills, and develop new knowledge and skills, in approaching the opportunity identification and marketing of their first main ventures?**

### 6.2.1 Opportunity Identification

Opportunity identification is a central focus for the entrepreneurship literature (Shane and Venkataraman, 2000; Shane, 2000). The entrepreneur's own human capital is particularly central to a start-up in its early stages when it usually has few staff members (Jones et al, 2010). Some human capital studies have considered how having greater stocks of human capital (e.g. a higher level of education) may lead to the identification of a greater *number* of opportunities (Shepherd and DeTienne, 2005; Ucbasaran et al, 2006). The literature has generally found that having venture-specific human capital, relating directly to the start-up business and its sector, is more closely related to higher levels of opportunity recognition than general human capital (Mosey and Wright, 2007; Shepherd and DeTienne, 2005). Having prior knowledge of a sector (i.e. venture-specific human capital), for example arising from previous work or entrepreneurial experience in that sector, has been identified as being particularly relevant to identifying and pursuing more opportunities (Ucbasaran et al, 2008; Shepherd and DeTienne, 2005; Mosey and Wright, 2007).

This study focuses on the role of young entrepreneurs in identifying and pursuing the key opportunity for their first main venture, rather than focusing on a quantitative measure of business opportunities pursued. It demonstrates how the human capital underpinning young entrepreneurs' opportunity recognition may differ from that of older entrepreneurs. Furthermore it has identified some variations among young entrepreneurs in the kinds of human capital they use to recognise opportunities. The routes to identifying opportunities differed quite significantly amongst participants, but unlike many previous studies of entrepreneurs (e.g. Lewis, 2009; Shane, 2000) most participants did not identify their opportunities through having previous work experience in the same sector as their new venture. In fact, only four out of 21 participants had prior work experience in the same sector as their first main venture.

This study extends the literature by suggesting that, for young entrepreneurs, personal interests rather than previous work experience are the main source of identifying

opportunities. Personal interests were identified as original source of opportunity identification in 17 out of 21 cases, though those interests varied significantly in terms of their character and the intensity with which they were pursued. In six of these cases, however, the young entrepreneur first set up an informal venture in the area of their personal interest, before subsequently setting up their first main venture in the same sector. Personal interests were seen to offer a form of venture-specific human capital, by providing the young entrepreneur with knowledge of a particular market as a consumer. Participants sometimes developed relevant networks (e.g. of customers and suppliers) and relevant technical skills relating to a hobby, that could later be used to establish their business.

Of the seventeen opportunities that were identified from personal interests, seven participants recalled that it was specifically an interest in computing that had led them to identify the opportunity which they had pursued for their first main venture. The significance of computing and the internet for this generation of entrepreneurs could be seen as a cohort effect (Aldrich and Kim, 2007), when compared to earlier generations. While Rosa (2003) identified in earlier research that young entrepreneurs may not be starting businesses in capital-intensive high technology sectors, this research has suggested that young entrepreneurs do in fact set up economically significant businesses using online technologies.

Participants on Pathway 1 were more likely to recall spontaneously identifying their opportunity through pursuing their hobby, especially those Pathway 1 participants who started their businesses while still at school. They usually were not deliberately looking to create a business opportunity at the time they identified it. For example, Alistair designed a computer gaming website initially for fun as a teenager, which ultimately led to his first main venture rather than finding his business opportunity through more explicitly creating a business idea. Participants on Pathways 2 and 3 were more likely to recall identifying their idea while already being aware that they were interested in setting up a business, and so were actively looking out for ideas while pursuing day-to-day life (e.g. in their hobbies and interests). So, for the youngest participants who identified their ideas as teenagers, opportunity identification was a less intentional process than for Pathway 2 and 3 participants.

### **6.2.2 Co-Founders**

The decision about whether to start a business with co-founders or alone is one of the most important for an entrepreneur (Shane, 2003). Cooper et al (1994) suggest that having a business partner or partners lessens reliance on the drive and judgement of a single entrepreneur, while Shane (2003) suggests that co-founder led businesses may have stronger business performance than those with only one founder. More specifically, Cooper et al (1994) point out that business partners add to both functional expertise and the broader managerial experience available to the business, as well as providing one another with psychological support. These benefits they believed enhanced business growth.

The findings from this study strongly supported findings from previous studies about the benefits of having co-founders. Choosing to start a first main venture with a co-founder rather than alone was regarded by participants as a key decision, and it was also considered particularly important to choose the right co-founder(s). Eleven out of 21 participants started their business with a co-founder, with a further three participants acquiring a business partner at a later stage. Cooper et al (1994: 390) point out that business partners provide one another with “psychological support”. Similarly, in this study, participants who had co-founders valued them both for giving psychological support and being a trusted source of advice. The young entrepreneurs often suggested that having a co-founder offered protection against the isolation of running a business alone. By contrast, Thomas, did discuss the loneliness of being a single business founder, despite his success and significant business networks. In Rouse’s (2004) study of young entrepreneurs from disadvantaged backgrounds, four out of 19 businesses had co-founders, but only one of the businesses with co-founders survived to the end of the Prince’s Trust scheme. Hence, having a business partner did not appear to prevent business failure for those young entrepreneurs. In Lewis’s (2009) study, five of 10 relatively high performing young entrepreneurs started up with one or more co-founders.

Participants pointed out that their co-founders brought with them complementary knowledge, skills and outlooks, supporting both Shane’s (2003) and Cooper et al’s (1994) view that having partners reduces the reliance on the capabilities of a single entrepreneur. In online businesses, for example, one founder often brought greater technical knowledge (e.g. of programming) while the other founder brought a greater understanding of sales and business (e.g. Alistair and Michael). Young entrepreneurs also sometimes recalled their co-founder as having contrasting personalities, for example one business partner being more optimistic, while the other was more pessimistic. Those participants who had co-founders were clear

that they brought both personal psychological benefits and valuable complementary knowledge and skills to the development of their first main ventures.

### **6.2.3 Marketing**

In general the human capital literature does not focus on how entrepreneurs carry out particular business functions (e.g. marketing and people management), but instead often relates an entrepreneur's pre-start-up experience to the financial performance and/or survival of a new venture (Gimeno et al, 1997; Bosma et al, 2004; Rauch and Rijdsdijk, 2011). The young entrepreneurship literature has paid more attention to the marketing and finance functions than to people management, because participants in these studies have generally not grown ventures to the extent that they have involved significant people management. McLarty's (2005) study of young graduate entrepreneurs found that they rated marketing an important issue of concern at the start, and generally continued to do so even two years after start-up. Selling to customers rather than advertising was the major marketing concern for the young graduate business founders. Marketing also proved problematic for many of the young entrepreneurs in Rouse's (2004) study taking part in the Prince's Trust scheme, with some avoiding contact with customers because they found this difficult.

Marketing was an issue that participants in this study found that they had to continuously address creatively, usually having few resources to devote to it at the beginning, particularly when they did not seek external investment until later or at all. Some participants discussed marketing problems they had to address early in the development of their first main ventures (e.g. Alex who had to reconsider the branding of his company), but they claimed to have successfully addressed them. No participant identified marketing as their major business problem at the time of the interview (i.e. when the business had been running for at least three years). The stronger marketing performance of participants in this study compared to McLarty's (2005) and Rouse's (2004) can be explained partly by the different samples involved in each. Participants in this study had to have generated at least £1million turnover to participate, or otherwise to have raised at least £1million in funding (hence proving to investors that they had a viable potential market). This study is thus able to contribute to the young entrepreneurship literature an explanation of some of the creative ways in which participants have successfully marketed their businesses, and how they sold to customers.

Participants' approaches to market research varied widely. Those first main ventures created while at school by Pathway 1 participants often originated organically without formal market research or testing. Sometimes for these participants informal venturing acted as a form of market testing for their first main ventures, when the business opportunities pursued in both ventures were closely related. Similarly, as discussed in relationship to opportunity identification, participants whose first main venture grew out of personal interests acquired their knowledge of the market and customer needs by being regular customers themselves in relevant markets. Personal interests and informal ventures could thus provide venture-specific human capital, giving the young entrepreneurs prior knowledge of the market and how to meet customers' needs (Shane, 2000). Pathway 2 and 3 founders were considerably more likely to undertake formal market testing before and during the early stages of starting their businesses. Jim, for example, even travelled to New York specifically to investigate innovations in the healthy eating fast food market after finishing university and shortly before setting up his business in this sector. Other examples of market research included meeting key players in the industry soon after start-up (Emily) and testing an opportunity in a low-risk situation by setting up a market stall (Hamish). These Pathway 2 and 3 participants usually lacked work or informal venture experience in the sector in which they set up their first main venture, so that their market research and testing was particularly important in building their venture-specific human capital (Ucbasaran et al, 2006). So, this study illustrates how young entrepreneurs adopt different approaches to market research, often depending on the precise age at and the experience with which they start their businesses. Young entrepreneurs who started their businesses after university were more likely to undertake formal market research than those who started their businesses while still at school and discovered their opportunities more coincidentally.

Participants usually started their businesses without large budgets for marketing and so relied on bootstrapping (Jones and Jayawarna, 2011), finding marketing solutions that were both economical and effective. The press interest in young entrepreneurs was identified as a significant advantage by many participants, who realised by talking about their entrepreneurial stories in the press they could gain valuable free marketing opportunities (a good example of a bootstrapping approach to marketing). Young entrepreneurs made adept use of social media, with Stephen, Luke and Michael, in particular, relying heavily on using it in their business models. The age of the young entrepreneurs in this study meant that they

shared the age range of the heaviest users of social media products and so understood the needs of these consumers well. Participants almost never engaged in expensive television advertising, and Stephen described how his short-term television advertising campaign had not produced a good return on investment. The use of Google Adwords was popular amongst paid-for advertising options, because it provided a more targeted cost-effective form of marketing.

As was identified in Chapter 4, all participants gained some experience in a customer service, marketing or sales role through work experience and/or informal venturing. Founders with graduate work experience had the highest level of sales experience pre-start-up (e.g. gaining cold-calling experience in sophisticated business-to-business markets). Of the non-graduates, John also had significant sales experience in the internet marketing sector, before setting up his firm in the same sector. However, he is somewhat of an outlier in Pathway 1 since no other participant who did not go to university had four years full-time work experience. Even without significant work experience, some participants proceeded to develop sophisticated sales and marketing skills at a very early age when starting their businesses. For example, Adam started his business at fifteen, and by the age of nineteen was recruiting major blue chip and public sector organisations as customers. He very astutely realised early on how to market the more customised service his company could offer to big business customers more effectively than his larger competitors (who tended to offer business-to-business customers more ‘off-the-shelf’ solutions). He had limited part-time work and informal venture experience of sales when he started his first main venture, but was able to develop both a marketing strategy and the sales skills to sell his services, despite competing in a market against much larger competitors. While the customer service and marketing experience the young entrepreneurs had prior to starting their businesses was often general human capital, not developed in the same sector as their first main venture, nevertheless they usually recalled this as valuable. This demonstrates the importance that accumulating certain types of general human capital can have for starting a business. The confidence of participants in developing customer relationships and selling skills appeared to be significant to their marketing success, when compared to the participants in McLarty’s (2005) and Rouse’s (2004) studies who struggled more in developing customer relationships. However, McLarty (2005) and Rouse (2004) did note that, for those participants in their studies who actively persisted with developing their selling skills, they did improve over time.



#### **6.2.4 Summary: Answer to Research Question 2**

Compared to a previous study of young entrepreneurs where the average age was a little older than in this study (Lewis, 2009), participants here were less likely to set up a business in the same sector as their previous work experience. Only a small minority of participants set up their business in the same sector as their earlier work experience, with slightly more setting up their business in the same sector as their previous informal venturing experience. Both of these were examples of using venture-specific human capital from their pre-start-up experience. More common was to identify opportunities through personal interests, with computing being the most common hobby (e.g. programming). An understanding of the market of their hobby from a consumer's perspective gave them an alternative form of venture-specific human capital, as opposed to having worked in or run a business in that field. However, such venture-specific human capital can be regarded as often being more limited in terms of business understanding than venture-specific human capital acquired directly from work.

Pathway 1 participants who set up their businesses while still at school were more likely to identify an opportunity while pursuing their hobby, while older Pathway 2 and 3 participants were more likely to be specifically looking for a business opportunity as they went about their day-to-day life. These older participants were also more likely to undertake formal market research and testing for their idea, knowing that they wanted to take on the entrepreneurial role as a full-time career compared to the school age start-ups. Half the participants set up their business with a co-founder, and the most common benefit of this was that each of the co-founders of the venture had complementary knowledge and skills (e.g. one participant being more business or sales orientated while the other participant was more technically/computing orientated).

It was in the area of developing strong customer relationships, including selling, where participants in this study appeared to have performed particularly strongly compared to studies of weaker performing young entrepreneurs (e.g. Rouse, 2004; McLarty, 2005). Evidence from participants suggested that while having developed strong sales skills in previous work experience was ideal for starting a business, even lower level casual work experience in customer service roles could be beneficial in obtaining the essential customer relationship skills necessary to build a business. Participants, however, not only had to

develop experience in this skill prior to starting-up, but also had to draw from it the importance of customer service and marketing and apply this to their own first main venture. The significance of young entrepreneurs having some pre-start-up experience of working with customers will be further emphasised in answering Question 4.

**Research Question 3: In what ways do the young entrepreneurs utilise their existing knowledge and skills, and develop new knowledge and skills, in approaching the finance, people management and business planning of their first main ventures?**

### **6.2.5 Finance**

Some human capital studies have analysed the financial performance of businesses (e.g. Gimeno et al, 1997; Bosma et al, 2004; Rauch and Rijdsdijk, 2011), although they have not generally considered the financial skills and knowledge which individual entrepreneurs possess. Some broader entrepreneurship literature has suggested that difficulties in raising finance are a significant inhibition for young entrepreneurs growing their businesses (Storey, 1994; Rouse, 2004), and that their businesses face on-going financial problems that they find difficult to manage effectively (McLarty, 2005). The literature also finds that social networks can be an important source of raising financial capital (Davidsson and Honig, 2003; Mosey and Wright, 2007). Mosey and Wright (2007) suggest that less experienced entrepreneurs may lack the social capital to access seed finance. While Payne (1984) and Macdonald and Coffield (1991) have suggested that the family may be a significant source of financial support for new businesses, this is not supported by all studies. Aldrich et al (1998) found in a US study that only 8% of finance for start-ups came from families, and similarly this study has found that families were far more likely to provide in-kind support to young entrepreneurs rather than direct investment in start-ups.

No participant started their business with highly developed financial skills (e.g. no participant had a professional financial qualification or financial work experience). This meant they sometimes found financial issues more challenging to tackle than marketing issues, where they had at least some prior knowledge. However, none said that their lack of financial expertise had inhibited their ability to raise capital, or reported current financial difficulties in their business. This may be, of course, the participants' unwillingness to discuss any current such difficulties, but they were willing to report past problems related to finance. Participants appeared to overcome their difficulties with financial management more easily than those in

McLarty's (2005) study, participants in this study particularly making use of employees and advisors with financial expertise. Partly of course this involved generating a sufficient turnover to be able to pay for such expertise.

Eight out of 21 of the participants started and grew their businesses using cash-flow, although sometimes using small personal savings and credit cards loans in the start-up phase. For some participants this partly reflected a desire to retain all the equity in the business and autonomy over the business's direction. It also reflects an ability and willingness to bootstrap (Jones and Jayawarna, 2010). Six firms raised external finance during the start-up phase, while a further seven businesses raised funding later on (one from a bank, the rest from venture capital and/or angels). There was little evidence of family investment in the young entrepreneurs' start-ups, whereas Macdonald and Coffield's study (1991) suggested that the middle class young entrepreneurs in their sample frequently raised important investment from parents (e.g. to pay the rent on a business premises). So, this study supports Aldrich and Kim's (2007) finding that only a small minority of entrepreneurs receive investment from family members.

Zott and Huy (2007) suggested that having higher education qualifications, in particular an MBA from a prestigious institution, may prove symbolically valuable in helping early-stage entrepreneurs build credibility with investors. There was a noticeable split in the type of investment obtained by Pathway 1 participants compared to Pathway 2 and 3 participants. Pathway 1 participants were more likely to fund through cash-flow or angel funding, with no Pathway 1 participant receiving venture capital funding. By contrast Pathway 2 and 3 participants were more likely to raise a combination of venture capital and angel funding – especially Pathway 3 participants. It is important to emphasise, however, that Pathway 1 participants did successfully raise angel investment in some cases, and none recalled that not going to university had proved a problem with gaining investment. It is not entirely clear why no participant in Pathway 1 obtained venture capital funding, but it was notable that when talking to them about the social networks they had built to support their businesses, they rarely discussed venture capitalists as being key contacts (e.g. as sources of market information).

Problems of cash-flow management are common in the early stages of building a business (Kirby, 2003). A third of participants recalled experiencing day-to-day financial

management problems, usually in the early stages of the business. These problems tended to be overcome as their businesses became firmly established and the young entrepreneurs learned the significance and principles of cash-flow management, and often took on accountants and book-keepers. By contrast, cash-flow management issues increased as a concern for the young graduate entrepreneurs in McLarty's (2005) study between initial start-up and two years into the development of their businesses, with the author suggesting that additional training in financial management may have helped them.

In trying to overcome their lack of financial knowledge and expertise, the participants did not generally seek to become financial experts, or take finance related courses. Rather they sought to enhance the human capital available to their businesses by seeking expert advice and support (e.g. from non-executive directors who were either experienced entrepreneurs or with corporate finance experience). By taking such advice, the young entrepreneurs were also developing their own knowledge of financial management, vicariously by observing and heeding advice. Participants who sought external funding often placed strong emphasis on the role of the investor as a source of financial (and other) advice to the business and the entrepreneur, to the point where access to experienced advice could be a key motivation in seeking a particular external investor (e.g. Stephen and Emily). In addition participants employed appropriately qualified book-keepers and/or accountants to support the finance function of the business. Acknowledging her lack of financial training, Vicky, for example, eventually employed a finance director. Three participants also recalled having support running financial aspects of their businesses from parents (i.e. where parents had professional book-keeping or accounting experience). Young entrepreneurs usually start their businesses without significant financial expertise (McLarty, 2005; Rouse, 2004; Macdonald and Coffield, 1991), but this study suggests that if they build a viable business with sufficient revenue, they can afford to access financial management expertise through either employees with appropriate technical expertise or external advice.

### **6.2.6 People Management**

Attempts to link an entrepreneur's pre-start-up level of managerial experience to performance in their new venture have not produced consistent results (e.g. Cooper et al, 1994; Ucbasaran et al, 2006). Cooper et al (1994) suggested that general human capital acquired from managerial experience in one business sector may be difficult to transfer if the entrepreneur

sets up a business in another sector. Burns (2007) suggested that entrepreneurs were more likely to build teams (rather than be simply self-employed with no employees) if they had previous experience of managing people. Hence young entrepreneurs may be less likely to grow larger businesses, as they lack previous experience of managing people in the workplace. Similarly, considering the employment practices of young graduate entrepreneurs, McLarty (2005) found that they had a reluctance to take on staff which acted as a constraint on business growth, and suggested that this might be partly due to concerns about the legal consequences of employing staff. Only a small minority of participants took on employees in that study. Similarly, Rosa found that the young entrepreneurs in his study usually built, “self-employed businesses depending mostly on the personal skills of the entrepreneur.... Only a handful of larger businesses were created” (2003: 451).

All the participants in this study had built teams, of between 5 and 140 in their first main ventures. The lack of people management experience of participants in this study contrasts to Ucbasaran et al’s (2006) study, where only 29% of novice entrepreneurs (taken from the general population, so of any adult age, rather than specifically being young) lacked supervisory experience before starting their first business. The majority of participants who took part in this research regarded managing people as the most significant challenge they had faced in growing their businesses, compared to either marketing or finance. This contrasts with McLarty’s (2005) and Rosa’s (2003) studies where marketing appeared to be a greater concern and most young entrepreneurs employed very few, if any, people.

Participants had not developed people management experience prior to starting their own businesses, although Pathway 3 participants were much more likely to recall gaining benefit observing other managers taking decisions in their higher level work experience than younger business founders. Kempster and Cope (2010) support the idea that having good organisational experience in other people’s businesses is useful in preparing business founders to take on the management role, even if that experience is not at management level. For example, they said it provided a diversity of management role models that entrepreneurs could draw upon when they started their own businesses. Founders with graduate work experience in this thesis were able to form judgements from this about how they wished to manage their employees, having been closer to such decision making than Pathway 1 and 2 participants. Lacking such vicarious experience watching managers, however, did not prevent participants with no graduate work experience developing large headcounts. For

example, Adam ran a business with 140 people, despite starting his business at 15 with very little previous work experience. This ability for the young entrepreneurs to learn how to manage experientially and by taking advice, given their lack of previous management experience, is important to new venture success according to Shane (2003). He argues that, “Larger numbers of employees provide several advantages to new ventures... The empirical evidence supports the proposition that new ventures with more employees perform better than other new ventures” (Shane, 2003: 239). Jones et al (2010) found that it was important that entrepreneurs undertake reflection about the future direction of their firms, including by developing their social capital so they can discuss their business issues with relevant contacts. Part of this critical reflection process, for the young entrepreneurs in this study, was taking advice from contacts they had developed externally to their businesses who had greater people management expertise (e.g. more experienced entrepreneurs, investors and people with senior corporate management experience, sometimes acting as non-executive directors). This helped them to develop their management skills and expand their firms, for example helping them to introduce performance management processes.

In general, participants learned to manage people experientially, although two did specific short courses to assist them. People management appeared to be a concern more in terms of acquiring tacit knowledge (e.g. how to motivate and communicate with employees), rather than a lack of codifiable knowledge (e.g. employment law). Davidsson and Honig (2003) similarly distinguish between ‘know how’ and ‘know what’ in their study of the human capital of start-up entrepreneurs. The young entrepreneurs recalled a lack of basic knowledge early on (e.g. writing contracts for staff and setting up performance management structures), but tacit management know-how appeared to prove a longer term challenge (e.g. how to maintain an appropriate entrepreneurial culture in their business as staff numbers rose significantly).

People management became an increasingly complex task as the young entrepreneurs’ businesses grew. Phelps et al found that, “The implications of growth are that founders and owner/managers move towards employment situations where tasks are delegated and people have to be managed, including issues of delegation, leadership, recruitment and training... developing... people-management skills” (2007: 8). Two participants took on senior managers in operational roles to manage staff for them, because they acknowledged people management as a weakness in their skillset (Peter and Charles). Other participants, such as

Jim, acknowledged that they still found people management one of the most difficult aspects of growing their businesses, but had learned to manage better over time. Most young entrepreneurs begin with no people management experience when starting their first main ventures, but in this study by taking appropriate advice and learning experientially, the majority of participants were able to develop their management skills. Nevertheless, the concerns which participants expressed about people management suggest to the researcher that lack of people management experience had potentially been a constraint on the speed of growth in some cases.

### **6.2.7 Business Planning**

This study has adopted three performance criteria, that businesses have: survived for at least three years; built a turnover of at least £1million or external investment of at least £1million; and, developed a headcount of at least five employees. The young entrepreneurs must have created these ventures from scratch, rather than buying or inheriting them. So, there is considerably less variability in participants' business performance than in some other human capital studies (e.g. Ucbasaran et al, 2006 or Mosey and Wright, 2007, who specifically set out to compare experienced and inexperienced entrepreneurs).

The literature on young entrepreneurs has often questioned the economic value of their businesses in terms of contributing to economic growth, for example due to the small size of the businesses but also to issues of business survival (Rosa, 2003; McLarty 2005; Rouse, 2004). In Rouse's (2004) research, over 70% of participants' businesses had failed in less than three years, whereas in this study all participants must have built a business that had survived at least three years to fulfil the sample criteria. Similarly, Rosa (2003) was quite critical of the economic value and performance of the businesses created by the young entrepreneurs in his study, suggesting they mostly offered low value to the economy in terms of the sectors they operated in (e.g. they were usually not high technology businesses) and in terms of lack of strong growth. He pointed out that the small size of most of the businesses in the research limited the employment generated, with 81% of businesses employing five or less people. By contrast, all businesses sampled in this thesis employed at least five people. The young entrepreneurs in this study may have generally not operated in capital-intensive, high technology sectors such as life sciences but there was much evidence of the sophisticated use of online technologies. This sophisticated use of online technologies by

some of the participants involved disrupting the way markets had traditionally worked before the internet, and so could be regarded as economically significant from that perspective, as well as in their financial performance. Timmons and Spinelli (2009) point out that many of the world's 'mega entrepreneurs' who have built large global businesses from scratch began their entrepreneurial careers in their twenties. They describe how it takes several years to develop the skills necessary to develop large sophisticated ventures, and that it is often not until their second or third venture that these entrepreneurs build their most substantial businesses.

Quantitative studies of human capital have tended to adopt an 'input-output' approach, attempting to statistically measure how an entrepreneur's stock of human capital prior to starting their business will affect business performance outcomes. These studies have used a variety of criteria to assess business performance, including profitability, generated employment, annual sales, first sale, survival over time and performance against competitor businesses (Bosma et al, 2004; Davidsson and Honig, 2003; Wiklund and Shepherd, 2003; Rauch and Rijdsdijk, 2011). In contrast this study has focused on how the young entrepreneurs used their human capital to carry out key entrepreneurial and managerial activities in growing their businesses.

This study has investigated the approaches of young entrepreneurs to planning and performance. Participants varied considerably in the extent to which they engaged in business planning (i.e. setting goals, producing plans, and tracking performance), with some participants displaying a 'bureaucratic model' approach to management while others adopted a less formal 'commitment model' approach (Baron et al, 1999). Planning at an early stage was often associated with seeking external investment, though participants sometimes doubted the quality of their early business plans (e.g. Emily doubted the rigour of her financial projections). In such cases it was clear that these early business plans were not really used by the young entrepreneurs as a way of managing the business and measuring its performance. They were documents produced mainly for attracting external investment. However, where their businesses were initially run informally, these entrepreneurs nearly all recalled at some stage having to introduce some elements of control or bureaucracy (e.g. performance management tools, such as staff appraisals, or annual sales targets). There was also evidence, in common with Davidsson and Honig's (2003) suggestion, that the young



entrepreneurs had goals beyond financial performance (e.g. the enjoyment of creating a business from scratch, and the ability to create a working environment that suited them well).

### **6.2.8 Social Capital**

There is a reciprocal relationship between human and social capital (Davidsson and Honig, 2003; Mosey and Wright, 2007; Nahapiet, 2011). For Davidsson and Honig, “Apparently, while human capital factors can explain discovery, and to some extent progression of the exploitation process, it is only when applied within the context of a relevant social structure that such qualities can help achieving successful outcomes” (2003: 323). Mosey and Wright (2007) have considered the impact of human capital on the development of social capital, for example how, “Industrial experience may also contribute to human capital and enable access to social networks for the identification and exploitation of opportunities” (2007: 913). Mosey and Wright (2007) focus on the impact of human capital on the entrepreneurs’ capacity to develop social capital, providing the first substantial empirical study on this topic. By contrast, this study makes a contribution by considering how social capital contributes to an entrepreneur’s human capital. In particular, it makes an empirical contribution to the young entrepreneurship literature by showing that this group of business founders require both human and social capital in order to grow their businesses. Because of their relative lack of work experience and complete lack of formal business ownership experience, being able to develop their social capital to support their human capital is particularly vital to their success. In doing this, the thesis seeks to avoid the “under socialised” view of human capital criticised by Nahapiet (2011: 85). Given the young entrepreneurs’ lack of business experience when starting their ventures, they regularly had to compensate for their own lack of human capital knowledge by developing their social capital to take advice and learning from contacts. For example, they regularly took people management advice and advice on developing their personal performance from mentors, non-executive directors and investors – most of whom they found through developing their own networks. More examples of the advice the entrepreneurs took are offered later in this section. There are also examples of participants converting (Nahapiet, 2011) human capital into social capital (e.g. Charles said his mentor – a senior corporate leader – taught him new skills that became part of his own human capital).

The findings of this study provide evidence both of the structure of the young entrepreneurs' social networks, and the benefits they derive from them. An entrepreneur's networks usually change over time. For example, Davidsson and Honig (2003) found that while bonding ties (e.g. family) remain significant, entrepreneurs develop bridging networks of business contacts as their businesses grow, to supply them with commercial and market-related knowledge. Participants in this thesis did not generally start their businesses with a strong network of contacts in their sector. Only one participant had extensive work experience *and contacts* in the same sector as his first main venture (Robert). So, participants had to build their commercial contacts from scratch in the majority of cases. This may help to explain the value placed by certain participants on entrepreneurial and professional advice from family members (bonding ties), supporting the findings of Davidsson and Honig (2003) and Aldrich and Kim (2007). Co-founders were also mostly identified by the entrepreneurs through existing bonding relationships (e.g. friendships) at the formation stage of the businesses.

During the start-up phase, many participants recalled attending either local general business networking events (e.g. Chambers of Commerce) and/or start-up networking events for new businesses (Open Coffee Club). They often recalled gaining inspiration, expanding their networks and learning from fellow participants; however, as their businesses grew, participants generally suggested they had outgrown such networking groups (particularly the ones aimed at start-ups). Similarly Jack et al (2008) found that the participants in their study would often initially build a broad network of weak ties, before going on to develop a narrower set of stronger, deeper ties more directly relevant to their particular market and business.

As businesses grew, the researcher found that participants in this study tended to change their networks markedly, reflecting their need to learn new knowledge and skills, and their perceptions of the nature of the information and knowledge their businesses required to grow. During the growth stage, participants often went to more growth-oriented networks to meet entrepreneurs at a similar stage. In addition they sometimes went to more sector-specific national trade associations and/or national/international networks involving business people from larger corporates (e.g. Hamish). Equally, as in Mosey and Wright's (2007) study, as participants became more experienced, they were more strategic and selective in building contacts that suited their businesses. So, participants adopted an increasingly instrumental

approach to networking, an approach shared by some but not all participants in Jack et al's (2008) study.

The extent to which participants attended formal networks did vary significantly though between businesses. John, Richard and Alistair found formal networks unhelpful. However, all participants recognised the need to build their own group of contacts, even those who disliked doing so through formal networking events. Other means used by many participants to build their contacts included informal groupings (e.g. a group of entrepreneurs who became friends meeting up for a drink regularly) and one-to-one meetings. More informal groupings of entrepreneurs were sometimes based on a mixture of business and friendship, thus strengthening the bonds between participants (e.g. Adam). This range of approaches to building contacts has not previously been addressed in the existing young entrepreneurship literature. This study demonstrates that both formal and informal networks are important to most of these growth oriented young entrepreneurs in building their businesses, and that these business founders approached networking in a purposeful way.

A number of benefits arise from the social connections the young entrepreneurs made in this study. Lee and Jones have identified that building social capital enables entrepreneurs to access "community support, innovation, market information and business advice" (Lee and Jones, 2008: 562). Examples of such benefits from social capital are similarly demonstrated in many sections of this thesis's findings. For example, in the 'Networks' section, Matthew pointed out the community support benefits of meeting up every month with a group of entrepreneurs through the Entrepreneurs Organisation where he could candidly discuss his business issues. In terms of innovation, Hamish explained in the 'Opportunity Identification' section how he had identified his business idea through talking with a friend who had found that you could buy a well-tailored suit cheaply in South Asia. Business advice was perhaps the most important of the benefits which the young entrepreneurs got through their social contacts, especially because of their entrepreneurial inexperience when starting their first main ventures. As was described in the 'Finance' and 'Managing People' sections, entrepreneurs regularly drew on advice from non-executive directors and investors about how to approach these important business functions. Participants were able to convert this social resource, of advice, into human capital available to the business (i.e. drawing on the advice given by contacts), and also to learn things from more experienced business people that then became part of the entrepreneurs' own experience (i.e. building their own human capital). At

the start-up stage entrepreneurs also realised they could get a range of useful advice and support for free (e.g. through families, and arranging meetings with important industry players in their sector, as Emily described in the 'Marketing' section). Jones and Jayawarna (2010) argue that the ability of entrepreneurs to bootstrap such advice at the early stages of start-up is important and puts emphasis on their abilities to develop their networks and their social skills.

Lee and Jones (2008) suggest the relational aspect of social capital can involve the development of reciprocity, obligations and expectations in social relationships. Once the young entrepreneurs had gained experience and proved that they could grow their businesses, half of them advised other young entrepreneurs just starting out. Some of them did this as investors in the young people's businesses, and others did it *pro bono*. This shows the obligations felt at least by some who benefit from their social capital, to reciprocate in helping other nascent entrepreneurs. Since they had succeeded with their venture partly due to the advice they had received, they felt it was important to help others. Klein (2009) has described how, particularly amongst online technology businesses, entrepreneurs, investors and mentors can be thought of as part of a larger eco-system who can mutually support one another.

### **6.2.9 Summary: Answer to Research Question 3**

Whereas the participants had developed at least some relevant experience to carry out the marketing function of their first main ventures through customer service or sales work experience, or running informal ventures, participants had less experience with other business functions involved with growing their businesses. Raising investment, financial management, people management and building the performance of their businesses were all newer challenges for most participants. Compared to marketing, participants were less likely to approach these other business functions using only their own human capital, but instead drew on the human capital of advisors and employees with more expertise in these areas as well. This was particularly the case with financial management. Business founders rarely reported being the main expert in their business on finance, but usually employed a finance professional either externally (i.e. an accountant or bookkeeper) or internally as an employee (e.g. a financial director). This allowed the young entrepreneurs to access these professionals' human capital.

Particularly with people management and business planning, a key reason why participants were able to start their business with little experience in these areas was timing. Whereas an entrepreneur needs to be able to understand and sell to customers early in the venture process, people management and business planning are more important later on as the business grows. People management was an area that had not been addressed significantly in the existing young entrepreneurship literature, because the business founders in these studies rarely employed many staff, and often employed no staff (Rouse, 2004; McLarty, 2005; Rosa, 2003). In terms of people management, Pathway 3 participants with the longest, most sophisticated work experience, were more likely than the younger business founders to have developed relevant knowledge by vicariously observing how managers in their previous workplaces operated, and making judgements from that about how they wanted to approach management. However, with only one participant having prior people management experience, the young entrepreneurs generally had to learn from experience, and take advice from mentors, investors and non-executive directors, to improve their management skills. As their businesses grew, new management challenges arose, around maintaining an entrepreneurial culture, and also implementing effective policies on issues such as performance management.

Different participants took rather different approaches to business planning, with some adopting a structured approach and a clear business plan from the start, while other participants only slowly developed formal mechanisms to plan and measure performance in their businesses. However, all participants adopted some degree of planning in their businesses over time as they expanded. Getting external investment was a particularly strong precipitator of a more structured approach to planning, since investors both demanded accountability from the young entrepreneurs and had the human capital to understand how to implement planning around performance.

Participants usually had to build their networks from scratch, and most did so actively taking an instrumental approach (Jack et al, 2008) to ensure they developed appropriate contacts to grow their business. In a minority of cases, participants brought some contacts either from informal venturing or work experience. But often the most important contacts at the beginning were bonding contacts (e.g. friends who were identified as appropriate co-founders, and family members who could provide useful entrepreneurial or other business advice). Early on, participants did begin to develop their bridging networks, to access wider

networks of people. Most, though not all, attended formal networks, especially in the early stages of their businesses, and they changed the networks they attended over time to ensure they were relevant to their business's current direction and stage of growth. It was noticeable that many of the young entrepreneurs not only took the idea of obtaining advice from well qualified advisors seriously but also believed, after they had gained experience, that it was important to reciprocate within the entrepreneurial eco-system by providing advice to other nascent entrepreneurs who were just starting out.

### **6.3 A Framework of Young Entrepreneurs' Human Capital**

**Research Question 4: How does human capital theory contribute to understanding the knowledge and skills young entrepreneurs use to start and build their businesses?**

#### **6.3.1 Necessary Human Capital**

In answering Question 4, the conceptual framework (see Figure 2.1) will be re-introduced, that was previously presented at the end of the literature review. A revised version of this diagram will demonstrate the key original contributions to knowledge this study has made to the understanding of young entrepreneurship. The first key contributions to knowledge will be in outlining the *necessary* human capital that the young entrepreneurs required in order to *build* their business. A distinction is made between starting and building a business since this study is about high performing young entrepreneurship, rather than simply starting a business – a much more easily achievable task.

From an empirical perspective, this thesis has identified three pathways which young entrepreneurs can take in order to acquire the human capital to start and build their businesses. These pathways offer a typology which relates young entrepreneurs' readiness to build a business to their pre-start-up human capital. These pathways extend knowledge since they act as an analytical tool for distinguishing between the different stocks of knowledge and skills which young entrepreneurs (at different ages and with different backgrounds) are able to use to build high performing businesses. The pathways demonstrate some variation in young entrepreneurs' human capital development (e.g. in variety, extent and sophistication of experiences). However, the researcher's analysis of the data also suggests some key commonalities between the pathways. Certain kinds of knowledge and skills were *necessary* whichever pathway young entrepreneurs followed in order to build a high performing

business. Importantly, by contrast these experiences were often missing in the human capital of less successful young entrepreneurs in other studies. (e.g. Rouse, 2004; McLarty, 2005).

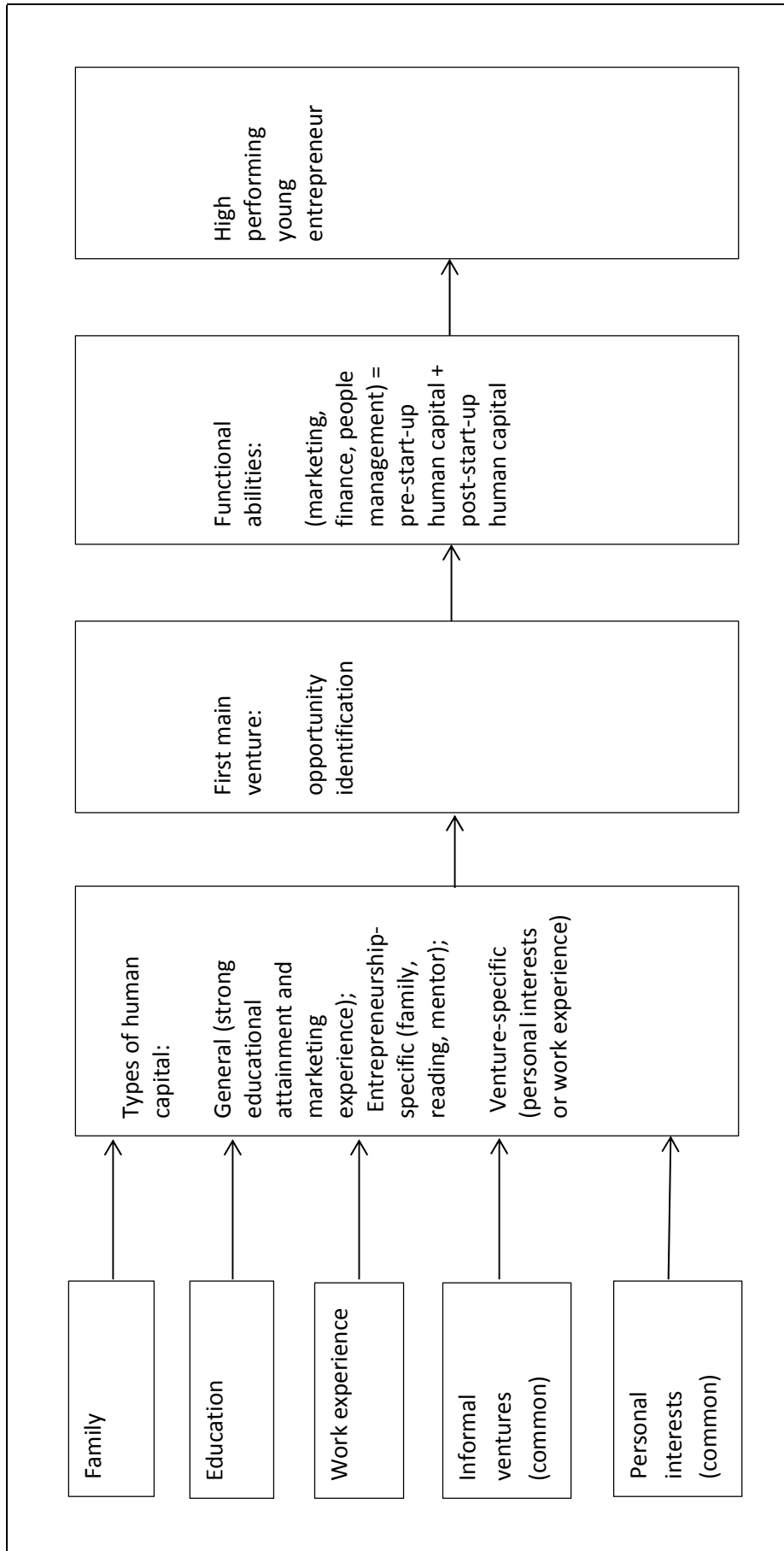
The core knowledge and skills, which Questions 1 to 3 above have identified that all the young entrepreneurs in this study possess, will now be linked to the theoretical concepts of human capital. So, the *necessary* human capital possessed by all young entrepreneurs in this study will be explained both empirically (the particular knowledge and skills) as well as theoretically (the types of human capital necessary and how these are fulfilled empirically). In describing the necessary human capital possessed by participants, a contribution will also be made in the debate over the relative importance of general and venture-specific human capital (see Rauch and Rijdsdijk, 2011). As a qualitative study with a relatively small sample, this research is generalising what human capital its participants share in common, and this cannot be generalised to the whole population of high performing young entrepreneurs without further study.

Every participant acquired the essential knowledge and skills that will be outlined below and shown in Figure 6.1, and spoke of them as important aspects of their development as entrepreneurs. These human capital portfolios were *necessary*, but not always *sufficient* pre-start-up human capital to subsequently build a business. The necessary knowledge and skills were acquired through a combination of the three types of human capital (i.e. general, entrepreneurship-specific and venture-specific), but participants generally appeared to have greater levels of general human capital than venture-specific human capital.

Figure 6.1 shows the necessary pre-start-up human capital which the young entrepreneurs in this study have developed. Compared to the existing literature, it will be seen that two new human capital factors have been introduced which represent an important development to the theory for assessing young entrepreneurs' human capital: informal ventures and personal interests. Informal ventures are somewhat similar to the conventional business ownership experience represented in the existing literature (i.e. both being entrepreneurship-specific human capital). However, informal ventures are generally pursued under the age of 18 and differ in some important ways - as explored in answering Question 1 above. Personal interests appear not to have been covered at all in the existing human capital literature on entrepreneurship, yet are the means through which a significant majority of participants in this study (17/21) developed their pre-start-up, venture-specific human capital. The previous

human capital literature has not been very specific on exactly what knowledge and skills fulfil the theoretical types of human capital (i.e. general, entrepreneurship-specific and venture-specific). By contrast, the diagram shows that, for young entrepreneurs, this study has established how each of those types of human capital requirements are fulfilled pre-start-up. Thus, general human capital involves having a relatively strong educational attainment and work experience in a marketing function role (which could be customer service or a more specific sales role in the private sector). Entrepreneurship-specific human capital involves having at least two of the following experiences, either pre-start-up or in the early stages of start-up: an entrepreneurial family member; reading entrepreneurs' biographies; and, a mentor or key adviser who can advise on venture creation. Venture-specific human capital involves having either a long standing personal interest or work experience in the sector of start-up before the young entrepreneur started their first main venture. Each of these four specific aspects of experience will be explored in more detail below.





Social Capital

**Figure 6.1: Framework of Young Entrepreneurs' Necessary Human Capital**

Firstly, all participants had experience of working with customers, and indeed an appreciation of the importance of understanding customer needs when building their businesses. Everyone had experience of working with customers before they started their businesses (i.e. general human capital), through running informal ventures and/or working in a private sector, customer serving role. Sometimes this experience was relatively sophisticated (e.g. a graduate sales role involving selling high value products for two to three years before starting a business). In some cases this experience of serving customers was more basic (e.g. working on a market stall or in a restaurant on a casual basis). Nevertheless, whatever experience participants did have of working with customers, they were able to provide a cogent explanation of how this helped them in understanding and serving customers when building their own ventures. By contrast, as has been explained earlier in this chapter, many young entrepreneurs in other studies - such as McLarty (2005) and Rouse (2004) - had greater difficulties with the marketing function (in particular working with and selling to customers). Having such pre-start-up experience gave participants in this study the necessary nascent knowledge and skills, including the confidence to sell products (an essential aspect of entrepreneurship). It is notable that participants were far more likely to see themselves as the chief marketer in the business and to hold particular expertise in this function, rather than as finance or people management experts.

Secondly, all participants had some access to at least one entrepreneurial role model (entrepreneurship-specific human capital). For more than a third of the participants this came from direct experience of growing up with an entrepreneurial family role model. However, for other participants, pre-start-up role models arose more at a distance, in particular through reading the biographies of entrepreneurs. It is notable that all participants in the study recalled reading the biographies of entrepreneurs at some point in their lives, an empirical point which existing literature has not investigated in detail. Even for the small minority of participants who did not gain access to an entrepreneurial role model prior to starting their business, however, they found a mentor early on in the venture creation process who could act as an entrepreneurial role model to them. In fact, most participants had a combination of two or three of these role models by the time they came to seriously build their businesses. Of course, it is *building* a business of some size, not simply *starting* a business, which distinguishes young entrepreneurs in this study from those in many other studies. So

participants need the necessary human capital by the time they come to grow their businesses. The researcher would argue that having an entrepreneurial role model provided: an aspiration to want to become an entrepreneur in many cases; an understanding of the work an entrepreneur does; and, an understanding of how an entrepreneur solves problems. These role models were generally experienced entrepreneurs operating in the private sector, not simply the self-employed or public sector business mentors (e.g. Business Link advisors).

Thirdly, all participants had a relatively strong educational performance up to at least GCSE level (i.e. general human capital). While some participants were dismissive of the value of education, everyone had gained the standard of qualifications which suggested they could have ultimately progressed to higher education. It may well be possible to identify other successful young entrepreneurs who have started businesses over the past decade or so without a strong educational performance. However, all participants in this study demonstrated a relatively strong level of educational performance. Moreover, those participants who had only a compulsory level of education recalled that their strong performance at GCSE level had been helpful because they had developed important numeracy and literacy skills to build their businesses.

Finally, in addition to the first three elements of general human capital and entrepreneurship-specific human capital identified above, there was one piece of venture-specific human capital which all participants had. This was knowledge of the market in which they identified the business opportunity for their first main venture. This study contributes to the existing human capital literature, however, in demonstrating that knowledge of a market can be gained from a personal interest or hobby rather than only from work experience or previous entrepreneurial experience. In fact, the majority of participants gained the knowledge of their market from a personal interest, usually acquired over a period of years (e.g. knowledge of the market as a consumer). Pre-existing interest in the sector of the start-up suggested a rather lower level of investment in pre-start-up venture-specific human capital than was required, for example, to complete a compulsory formal education (i.e. general human capital). Of course, once participants had started their businesses, they would inevitably have gained a lot more venture-specific human capital in order to build high performing business.

### 6.3.2 Consequences of the Framework

By demonstrating that most of the minimum required experience for young entrepreneurs to build a business comes from general or entrepreneurship-specific human capital rather than venture-specific human capital, this study also contributes to the debate over the relative importance of these three types of human capital. Rauch and Rijsdijk have found that, while “the general human capital of business founders was positively related to growth... specific human capital was not related to growth... This would seem to contradict the notion that specific knowledge is more important than general knowledge (Bosma et al, 2004; Unger et al, 2011)” (2011: 13). The results of this thesis would support Rauch and Rijsdijk’s (2011) finding. The thesis also extends the human capital literature by stating that, for the *young* entrepreneurs in this study, general human capital was more important than venture-specific human capital. In line with Rauch and Rijsdijk’s (2011) suggestion, the young entrepreneurs needed some venture-specific human capital to start their business (i.e. identify an opportunity), but it was the necessary stock of pre-start-up general human capital and entrepreneurship-specific human capital that prepared all participants for growing their businesses over time. As Rauch and Rijsdijk state, “growing the enterprise over a long period of time may require broad and new knowledge related to growth management: general human capital helps to learn and acquire such new knowledge” (2011: 14).

In describing the importance of general human capital, the researcher has also identified a further important requirement. The young entrepreneurs in this study demonstrated the ability to *transfer knowledge and skills from one sector to another*. No participant had gained all the necessary human capital to start their business in the same sector as their first main venture, yet they placed importance on their general human capital gained in other sectors, and explained how they were able to apply it to the sector of their new start-up. In fact, 17 out of 21 participants had no previous work experience in the same sector as their first main venture (though a minority did have informal venturing experience in that sector). Aldrich and Yang (2012) are sceptical of the ability of people running their own businesses to transfer human capital developed in one sector and then to apply it in another sector. However, the young entrepreneurs in this study generally had to transfer their entrepreneurial or work experience from the sector they gained it in pre-start-up and then apply it in the sector of their first main venture. This ability to transfer human capital from one sector and then apply it in another can be seen as an important part of entrepreneurship-specific human capital. It

demonstrates the ability of the young entrepreneurs to draw together all of their experience to date, first when starting a business, and later in building it. A high performing entrepreneur does not, for example, neglect to use experience of working with customers in one sector, simply because their new venture is in a different sector. Of course, they may need to adapt and learn as they go in applying their knowledge of working with customers to a new sector, given different requirements and expectations, but they draw everything possible from their previous experience.

While participants certainly had to learn a lot about marketing ‘on the job’ as they grew their first main ventures, there were usually far greater gaps in the entrepreneurs’ pre-start-up human capital in relation to the finance and people management functions. These gaps had a direct impact on the ability of the young entrepreneurs to build their ventures. For example, they sometimes made mistakes in basic people management issues early on, such as not having good employee contracts or effective performance management procedures in place.

These functional problems, however, did not ultimately prevent the respondents from growing their businesses. This is partly because some of the more challenging issues did not arise during the early stages of start-up (e.g. the challenges of people management when employing two or three people are less than when employing 15 or 30 people). This demonstrates the importance of timing in human capital development. As participants built their businesses, they added to their own human capital (and hence to that of the business) in a number of ways. They worked hard to develop appropriate contacts (e.g. parents, mentors, non-executive directors, informal contacts, friends who were entrepreneurs, employees), and drew on the expertise of these people. The way in which this social capital was used by participants has been spelt out in greater detail in answering Question 3 above. What is important to note here is the reciprocal nature of human and social capital (Nahapiet, 2011) in building both the human capital of the entrepreneur and the business. Participants recognised gaps in their own knowledge and skills and realised that they would need to use existing social capital and develop new social capital as a key mechanism to access human capital for their business (e.g. drawing on the expertise of finance professionals, entrepreneurs and investors). Building appropriate contacts to reflect the size of the business, its goals and its sector, enabled the young entrepreneurs to *convert* their social capital into human capital. When they lacked people management, business planning and finance skills, they could draw on the advice and expertise of others in order to carry out these functions. This not only

enabled them to fulfil these functions more effectively, but also often helped to build their own knowledge and skills (i.e. contributing to their own human capital through learning from such advice). Without the ability to develop and use their social capital effectively, the young entrepreneurs would have been denied a key mechanism for learning how to develop their businesses, especially in functions such as finance and people management, where they lacked any significant pre-start-up experience.

In drawing on their social capital in order to carry out the functions necessary to build their businesses, the young entrepreneurs also demonstrated a very strong *awareness of their own human capital development needs*. Once they started their ventures, the participants identified areas where they needed to develop their knowledge and skills further in order to build their businesses. They were enthusiastic about learning ‘on the job’ through trial and error, as well as reading about, and learning directly through interacting with, other entrepreneurs. They wanted to customise their learning, so they almost invariably showed little interest in attending courses with standardised curriculums. They wanted to learn from people who had ‘been there and done it’, whether through talking to them, working alongside them (e.g. as employees or non-executive directors) or reading about them. A small minority of participants had won places on programmes such as Seedcamp and Web Mission in order to make connections and obtain mentoring that would assist the building of their businesses. Young entrepreneurs, compared to older entrepreneurs, are far more likely to have significant gaps in their human capital when starting their first main ventures. The fact that participants in this study demonstrated both an awareness of their human capital development needs at various stages of building their businesses, and also a *real drive and enthusiasm to fulfil those needs and for learning*, was crucial to their success.

## **6.4 Implications**

### **6.4.1 Policy Makers**

In offering implications from this research for policy makers, it is important to stress that this is a study of high performing young entrepreneurs and that some of the findings will not be relevant to encouraging widespread self-employment amongst young people in general.

Policy makers should consider raising awareness of entrepreneurship in schools as a realistic career option. Participants in this study regularly recalled how important real-life role models

had been in encouraging their entrepreneurial ambitions. The media are increasingly generating awareness of entrepreneurship amongst young people, but it will seem a more realistic career option if pupils are introduced to role models (e.g. local entrepreneurs coming into school to work with pupils on entrepreneurial projects for ‘enterprise days’). The Young Enterprise scheme has not always provided entrepreneurial role models to pupils as mentors, but rather people with professional or business backgrounds. It is important that pupils in school meet genuine entrepreneurs.

In designing careers advice services for school leavers, policy makers should be aware that some young people do find it possible to start-up a successful business without attending university. This route will not be appropriate for all pupils with entrepreneurial career intentions, but if, for example, bright pupils have a realistic business idea, which ideally they have already started to test before leaving school, this may provide an alternative to attending university. This recommendation is in line with the StartUp Loans scheme launched by David Cameron and Lord David Young in 2012. The scheme encourages both school leavers and graduates to consider setting up their own business.

In terms of universities, policy makers will note that the small minority of participants who took part in entrepreneurship clubs in this study found them particularly useful. For this reason, the findings would support the work of the National Association of College and University Entrepreneurs, funded by HEFCE, in supporting the development of strong, student-led entrepreneurship clubs at higher education institutions. The author also notes that similar entrepreneurship clubs in schools are beginning to emerge in American schools (e.g. see the *New York Times* article by Hardy, 2012, about a school entrepreneurship club in Silicon Valley). More broadly, inspiration about entrepreneurship education from America can be found through the work of the Kauffman Foundation.

In terms of entrepreneurship education in universities, the findings of this research would support Gibb (2002), who asserts the importance of experiential learning, as opposed to the main focus of entrepreneurship education being lecture-based learning. Participants in this study always favoured learning practically about entrepreneurship, rather than learning through textbooks. When they did read out of choice, it was often to engage with the experiences of real entrepreneurs through reading their biographies.

The role of government in providing direct business support to high performing young entrepreneurs appears limited from this study. Participants in this study favoured support from entrepreneurs and corporate leaders rather than from public support schemes such as Business Link. However, there may be a role for government in helping to foster private-sector led networks and programmes such as Seedcamp. What policy makers can do through public institutions, such as universities, is to signpost potential high performing entrepreneurs to private sector led networks. There may also be a role for government in encouraging entrepreneurs in the regions to establish networks for young entrepreneurs, but the role of the public sector in these should not be dominant.

#### **6.4.2 Young Entrepreneurs Starting and Building a Business**

Getting experience of working in someone else's organisation provides important human capital, even if it is only for a short period of time, and can be valuable in leading to a basic understanding of the workplace. Even part-time, casual work experience in hospitality or retail can help a budding young entrepreneur to develop an understanding of customer service, a key aspect of running a business. Experience of a sales role in someone else's business can also be very useful.

If a young entrepreneur wants to start a business in their teens or very early twenties, developing practical entrepreneurial experience through running an informal venture (see 'Informal Ventures' section in findings Chapter 4) during the teenage years will help to develop important entrepreneurial skills.

It is important that young entrepreneurs learn from other real entrepreneurs, through personally engaging with them at every available opportunity (e.g. if an entrepreneur visits school or getting work experience with an entrepreneur). Even if it is not possible to get access to entrepreneurs on a regular basis, a lot of early inspiration can be gained by reading the biographies of entrepreneurs – the people who have been there and done it. Of course the ideal situation is to find an entrepreneurial mentor at an early stage.

It is important to take advice from a wide range of people when starting a business as a young entrepreneur, particularly given their lack of previous business ownership experience. There are a lot of things to learn in carrying out the marketing, finance, people management and business planning functions, so a range of people can potentially offer help and advice to



ensure a young entrepreneur's business has access to all the human capital required to succeed. Making a wide range of contacts is also important as these can lead to the development of mentoring, non-executive director and investor relationships for the young entrepreneur. There are various organisations which participants found it helpful to engage with in this study which are discussed in Chapter 5.

The findings of this study suggest that it is sometimes a good idea to consider starting a business with an appropriate co-founder if a single young entrepreneur founder is not able to provide the necessary knowledge and skills to start and grow their business. Participants in this study stressed that they chose business partners because each partner was able to make a valuable and distinctive contribution to the business (e.g. one founder brought a greater degree of technical IT knowledge to an online start-up while the other founder brought a greater commercial acumen and marketing ability). So, while co-founders were sometimes already friends, they were not chosen solely because of friendship, but because of the value each could bring to the business.

## **6.5 Conclusion**

This chapter has considered the findings of the thesis in the light of the existing literature. In interpreting the findings, the researcher has established the necessary human capital that was important to all the young entrepreneurs in this study in order for them to build a high performing business. This chapter has also contributed to the debate about which types of human capital gained prior to start-up are most important to entrepreneurial performance. It has been found that, in order to build a business, young entrepreneurs required a greater quantity and quality of general human capital than venture-specific human capital prior to start-up. Finally, implications for policy makers and young entrepreneurs arising from the study have been outlined. In particular it has been emphasised that entrepreneurship educators and policy makers should aim to create practical experiences for learning about entrepreneurship, since it was early practical entrepreneurial learning (e.g. informal ventures) that was important to the young entrepreneurs' development in this study.

## **CHAPTER 7: CONCLUSIONS**

Young entrepreneurship has only received a limited amount of research attention (Lewis and Massey, 2003; Rouse, 2004; Lewis, 2009) despite the recent media and popular interest in the topic. This study has researched a group of young entrepreneurs who have received very little academic focus previously: young high performing business founders. In particular it has investigated the human capital they have used to start and build their businesses.

### **7.1 Key Findings**

#### **7.1.1 Pathways**

The way in which human capital was actually developed by the young entrepreneurs related both to their educational backgrounds and the age at which they started their first main ventures. For this reason, three pathways have been identified, which demonstrate particular patterns of pre-start-up human capital development.

Chapter 4 began with a description of three human capital development pathways. Each of the 21 young entrepreneurs can be classified into one of these pathways, although there are outliers who fit broadly but not completely into their pathway. The key criterion for classifying the entrepreneurs is whether they started their business with either: a school education (Pathway 1); or, a school and university education (Pathway 2); or, a school, university and graduate work experience background (Pathway 3). While nearly all the Pathway 1 participants started their business by age 19, no Pathway 3 participants started their business until the age of 23. Pathway 2 participants started their businesses between 20 and 22.

The pathways are a contribution to understanding young entrepreneurs' different pre-start-up experiences. There are key similarities in human capital amongst participants who are on each pathway, for example in terms of work experience. Whereas Pathway 1 and 2 participants mostly had low level, part-time work experience, Pathway 3 participants had more sophisticated graduate-level work before they started their businesses. Pathway 3 participants were much more likely to recall gaining higher level knowledge and skills from their work experience (e.g. problem solving and selling high value products). However, as will be reiterated later in this chapter, although the young entrepreneurs had experienced different human capital development, this study has also identified some core necessary

human capital that it was essential to obtain whichever pathway a young entrepreneur followed.

### **7.1.2 Pre-Start-Up Human Capital Development**

This study has investigated the following areas of human capital which the young entrepreneurs acquired before starting their business: family background; education; work experience; informal ventures; and, non-graduate and graduate work experience. The key findings in each of these areas are summarised below.

Having an entrepreneurial family member was important for the nine participants who had this background. However, two further participants who had self-employed parents, but whom the participants explicitly said were not entrepreneurs, were not seen to have provided the inspiration, role modelling or advice that an entrepreneurial parent often could. In many cases, both entrepreneurial and non-entrepreneurial parents were able to offer tangible and/or intangible resources helpful to starting a business, including advice, training in particular skills (e.g. advanced IT skills), and sometimes offering particular services to the business (e.g. bookkeeping or accountancy skills). There was very little evidence of direct career advice from any parents that their children should become entrepreneurs, with parents being more concerned usually to encourage their children to be ambitious and positive. Interestingly, only two participants recalled direct advice from parents that they should seriously consider not becoming an entrepreneur.

No participant stated a belief that they would have performed better in their entrepreneurial career if they had completed more full-time education, with even the two Pathway 1 participants who left school at 16 content that they had the necessary education to establish their business. By contrast a minority of participants who went to university did believe that their time would have been better spent instead gaining more work experience or working on their own business full time, since they did not believe their entrepreneurial career had benefited from the university degree they studied. Participants who had studied A-levels and degrees in relevant subjects to starting a business, such as business studies, law and psychology, however, could usually identify particular relevant knowledge and skills that these qualifications had taught them. Sometimes graduates identified more generic higher order skills they had developed from studying degrees in other subjects such as Philosophy and Politics and Maths (e.g. problem solving and analytical skills). For Pathway 3

participants, it was noticeable that they had often gained high quality graduate work experience (e.g. in management consultancy or high value sales roles) after leaving university and before starting their first main ventures, which they probably would not have been able to access so young without having their degrees. Pathway 3 participants themselves, however, did not make this point.

The informal ventures of young entrepreneurs under the age of 18 have not been addressed in previous human capital studies. In this study, these *ad hoc* businesses appeared to have taught the young entrepreneurs useful skills, in two cases as young as primary school, though usually in high school, to help to set up their first main ventures. Fifteen out of 21 participants undertook informal ventures, with all Pathway 1 business founders doing so, but only a minority of Pathway 3 participants. For Pathway 1 and Pathway 2 participants the opportunity to begin to develop nascent entrepreneurial skills, such as purchasing, selling and negotiation at such a young age, appeared to be a crucial development of their entrepreneurship-specific human capital. This was particularly so since Pathway 1 and 2 participants usually had minimal work experience. By contrast, Pathway 3 participants had more sophisticated and longer term work experience, thus making informal venturing less significant on this pathway even where the young entrepreneurs had done it.

The quality of work experience of participants before starting their first main ventures varied significantly. Pathway 1 and Pathway 2 participants usually had part-time, casual work experience, in low level roles (particularly in hospitality and retailing). They were able to develop certain important, though limited, knowledge and skills from these roles in most cases, in particular a basic understanding of the workplace and customer service skills. By contrast, the Pathway 3 participants who all had undertaken graduate work experience, were able to start their first main ventures with more sophisticated understandings of business (e.g. about the type of organisational culture they wanted to create in their own business). Pathway 3 participants usually had no people management experience themselves, but they often recalled learning vicariously how they would wish to manage their own businesses by watching managers in the organisations that they worked in. Pathway 3 participants also were more likely to recall learning other higher level skills, such as how to sell high value products, or how to problem solve. However, direct people management experience was only developed by one participant through their work experience. A significant majority of participants later realised this was a weakness for them as they built their first main ventures.

### **7.1.3 Building First Main Ventures**

This study has investigated how the young entrepreneurs used their pre-start-up human capital as they approached the following areas of their first main venture: opportunity identification; working with co-founders; marketing; finance; people management; business planning; and, building social capital. The key findings in each of these areas are summarised below.

Seventeen out of 21 of the young entrepreneurs identified the business opportunity for their first main venture through pursuing their personal interests (most commonly a hobby in computing). Pursuing personal interests provided a form of alternative venture-specific human capital, giving participants a knowledge of their hobby sector from a consumer's perspective since they did not have work experience in the sector. Only four out of 21 participants identified their business opportunity from previous work experience. Pathway 1 participants were most likely to identify their opportunity by chance while pursuing their personal interests and gradually realise they might be able to set up a business using the idea. By contrast, Pathway 2 and 3 participants (being generally older and more aware that they wanted to set up their own business) were much more likely to be actively looking out for a business opportunity that they could create.

Half of the young entrepreneurs started their business with a co-founder, with one starting-up with two co-founders. Having a co-founder was recalled by participants who had them as advantageous for two reasons in particular. Firstly, it enhanced the human capital available to the business since a co-founder was usually chosen because they had complementary knowledge and skills (e.g. for an e-commerce business, one co-founder had a greater technical knowledge of computing, while the other had greater knowledge of business and sales). Secondly, having a co-founder could reduce the isolation involved in being an entrepreneur. Single business founders sometimes did recall the isolation of setting up a business alone, whereas the young entrepreneurs who set up with co-founders said they benefited from the psychological support of having their co-founder with them on their entrepreneurial journey.

Developing the marketing of the business, in particular customer service, sales and advertising, appeared to be one of the strengths of most of the young entrepreneurs. No participant recalled marketing being an area of weakness at the time of interview, although

there were some early problems with marketing for a minority of participants (e.g. defining their customers' needs clearly). The human capital developed by participants prior to starting their first main ventures was stronger in the area of marketing than in either people management or finance, since all participants had either informal venture experience and/or work experience involving customer service or sales. Participants benefited from a strong understanding of social media, being of the age group most likely to be social media users, which identified one cost effective approach to advertising for them. Many participants also received considerable free publicity through telling their story about being a young entrepreneur in the press, at a time when there has been considerable media attention on young entrepreneurship. Participants also sometimes gave examples of sophisticated sales strategies which they had developed, and they often reported enjoying selling.

No participant had worked in a finance role prior to starting their business, and none had completed a professional finance qualification. Compared to the marketing function, the young entrepreneurs were considerably more likely to seek external advice and services to carry out their business's financial management requirements. It was notable that no Pathway 1 participant had raised venture capital finance (though a minority did have business angel funding), whereas Pathway 2 and 3 participants had sometimes raised venture capital. Eight out of 21 participants grew their business from cash-flow, while 12 participants raised venture capital and/or angel funding at some point in their entrepreneurial journey. Raising finance was often undertaken not only because of the funding it could provide to the business, but also because the young entrepreneurs recognised that they could draw on the human capital of their investors, if they carefully identified those with relevant sectoral and/or functional expertise. Only one participant recalled raising a major loan from a bank. A third of participants recalled experiencing some financial management problems. These were usually cash-flow management problems in the early stages of the business that were eventually resolved.

Managing people was the most difficult part of building a business for the majority of the young entrepreneurs. Only one entrepreneur brought prior people management experience, so participants usually had to learn how to manage people while at the same time facing the other challenges involved in growing a business. At the time of interview, the headcounts of the businesses of the young entrepreneurs ranged between 5 and 140. Pathway 1 and 2 participants had the least preparation for people management in most cases due to their very

limited work experience. While Pathway 3 participants rarely had direct people management experience, they were more likely to recall being able to learn vicariously from their graduate work experience about how managers in those organisations operated. This gave Pathway 3 participants a stronger awareness before starting their business of how they themselves would like to approach people management. In a minority of cases, as the young entrepreneurs' businesses grew, they moved away from people management as they believed this was a weakness of theirs, bringing in operations directors with professional management experience instead. The young business founders often demonstrated a strong intellectual awareness of the importance of developing an appropriate organisational culture for their businesses as they grew, even when they realised there were gaps in their people management skills. They often took advice about people management to develop their knowledge and skills in this area from investors, mentors and/or non-executive directors. Only two participants recalled going on short courses that had developed their knowledge of people management.

The sample criteria limited the performance differences between participants and their businesses, although there was still some quite considerable variation. Turnovers varied between £1 million and £90 million for most participants (with a small minority selected because they had raised £1million in external investment instead), while headcounts varied between 5 and 140 people. All first main ventures started by the young entrepreneurs had been operating for at least three years. The approaches to business planning and measuring performance also varied considerably between participants. A minority of businesses adopted a formal approach to business planning and measuring performance from the beginning, but most entrepreneurs adopted a more intuitive approach at this stage. Businesses were more likely to adopt formal approaches to planning and measuring performance after raising investment, although even those entrepreneurs whose firms grew purely organically could generally recall having to implement some formal planning and performance measurement targets at some stage of their growth. Nevertheless, externally funded businesses generally appeared to have more formalised approaches to planning and measuring performance.

The young entrepreneurs were mostly active networkers, who adopted a purposeful approach to building their networks. Given their entrepreneurial inexperience when starting their first main ventures, it was important that participants were able to draw upon the human capital of others in building their businesses and not just rely on their own existing knowledge and

skills. Hence they needed to build relevant contacts with functional and sectoral expertise. When starting their first main ventures, participants attended local business networks (e.g. chamber of commerce) and start-up groups (e.g. Open Coffee Club), and they could often gain inspiration and learn some useful lessons from people at such events in these early stages. However, as their businesses began to grow, participants sometimes recalled attending more national meetings of their trade bodies or business associations (e.g. national Institute of Directors meetings). They also found attending groups more specifically focused on business growth, rather than start-up, helpful (e.g. the Entrepreneurs Organisation and Future 500). So, the young entrepreneurs mostly took an instrumental approach to attending networks and making contacts at them that were most relevant to their business's stage of growth at a given time. A minority of participants did not find formal networking events helpful, but they found other ways to make contacts relevant to their business. For example, most of the young entrepreneurs developed informal groups of contacts they could bounce ideas off who were both friends and entrepreneurs. Participants also arranged one-on-one meetings with important players in their particular industries, especially early on in their business's growth, to understand their sector better and draw on these people's advice. Investors, non-executive directors and mentors could also provide access to their contacts for those businesses who had them. Participants recalled getting access to a range of resources through their contacts, including advice on finance and people management, ideas for innovation and access to psychological support.

## **7.2 Necessary Human Capital**

The pathways typology has primarily demonstrated the differences in pre-start-up human capital amongst the young entrepreneurs. However, analysis of the results suggests that there are also in fact some common knowledge and skills which all participants developed prior to, or in the early stages of, start-up which proved important to growing their businesses. These were set out in detail in the Discussion chapter but will be outlined again here.

It is relatively easy to start a business, but other studies of young entrepreneurs have shown that many such business founders find it difficult to achieve survival and grow (Rosa, 2003; Rouse, 2004; McLarty, 2005). The argument made here is that four aspects of human capital developed mainly pre-start-up were significant, even *necessary*, for all participants to *build* their businesses. Firstly all participants had developed experience of working with customers



prior to start-up, whether through informal venturing or work experience. The fact that the young entrepreneurs had different human capital experiences (e.g. informal venturing or work experience with customers), yet that each could provide the necessary experience to build their businesses, suggests that one type of human capital may *substitute* for another. Secondly, all participants had access to one or more of the following entrepreneurial role models: an entrepreneurial family member; they read biographies of entrepreneurs; they found a mentor who was an entrepreneur. Thirdly, all participants had a good standard of compulsory educational achievement, whether or not they continued on to A-levels and degree level. Fourthly, all participants had developed some relevant venture-specific human capital to identify the opportunity for their first main venture. However, this was generally achieved through having a personal interest or hobby relating to the market of the business opportunity (e.g. an interest in computing leading to an IT services business) rather than through work experience in the same sector.

So, most of the necessary human capital developed by participants was either general human capital or entrepreneurship-specific human capital, with the majority of participants only using pre-start-up venture-specific human capital in relation to their opportunity identification. This supports Rauch and Rijdsdijk's (2011) recent assertion that general human capital is more important to growing a business than venture-specific human capital. In fact all participants in this study demonstrated the ability to *transfer knowledge from one sector to another*. For instance, many gained an understanding of working with customers in one sector and then applied it a different sector for their first main venture.

This study identifies key features of these young entrepreneurs' understanding of and attitude towards their human capital and its development. They demonstrated a strong *awareness of their human capital development needs* as they built their businesses. They were keen to learn practically both through experience and through gaining advice and support from other people with experience (i.e. social capital). They demonstrated a strong drive to fill the gaps in their human capital which they believed would be necessary in order to grow their business. However, they were generally not interested in undertaking formal education or training with standardised curriculums. In a minority of cases they did though take part in programmes such as Seedcamp or Web Mission, which allow the entrepreneur to customise their learning to their individual business needs.

### **7.3 Methodological Reflections**

This study has adopted a qualitative approach, adapting a theory usually associated with quantitative investigation in entrepreneurship. A qualitative approach to human capital theory is in some ways complementary to a quantitative approach (Neergaard and Ulhøi, 2007). The study of entrepreneurship through human capital theory has not included in-depth exploratory investigation into the nature of the phenomena being studied. Nahapiet (2011) has pointed out that existing quantitative studies have often used indirect measures of human capital. These measures provide only a limited understanding of the human capital being developed and hence of its usefulness. For example, she suggests, “educational credentials are a simple and readily measured proxy for skills and competence, but there are real limitations to this mode of assessing human capital. There is an acknowledged but as yet largely unmet need to look at actual knowledge and skills, not just time spent in education” (Nahapiet, 2011: 76). This study advances understanding of more precisely what knowledge and skills the entrepreneurs have gained from various aspects of their human capital.

This qualitative study has been able to explore more thoroughly entrepreneurs’ own views of the meanings of particular human capital factors and their relevance to their entrepreneurial careers. Such qualitative understandings of human capital factors can help to strengthen the decisions about what to measure in future quantitative human capital studies (e.g. by enabling the careful exploration of the most accurate conceptualisation and measurement of particular variables). Using existing studies of human capital theory was helpful in allowing the researcher to identify important human capital factors such as family background, education background and work experience, and provided a starting point for questioning the young entrepreneurs about these topics. However, asking the participants in detail exactly what human capital they had developed and how they used it, led to more precise understandings about what human capital is helpful to starting a venture. For example, previous quantitative human capital studies have tended to measure only the last level of education achieved. However, the young entrepreneurs in this study identified that the subjects studied (not just the level of education studied) was very important to education’s usefulness to an entrepreneurial career. The participants were sometimes able to identify quite precisely how particular subjects could support development of relevant practical skills and knowledge (e.g. how studying Psychology could help to understand selling).

Bygrave (2007) raises a number of problems about using pre-existing data sets, which some quantitative human capital studies rely on. Bygrave contends that, “Too much research is based on convenient, readily available data sets” (2007: 21). He particularly questioned the quality of those entrepreneurs sampled in typical questionnaires: “does anyone imagine that busy entrepreneurs with high-potential businesses have time to respond?” (Bygrave, 2007: 21). Bygrave (2007) contends that Schumpeter was concerned with studying entrepreneurial outliers, not merely with self-employed people running very small businesses, who might be willing to answer entrepreneurship surveys. Qualitative research enables the identification of these ‘Schumpeterian’ entrepreneurial outliers more easily, due to the smaller sample sizes required. The twenty one young entrepreneurs who took part in this study were selected to meet demanding criteria.

Quantitative human capital studies have not offered many insights into how previously accumulated human capital is actually used in a new venture and how new knowledge and skills are accumulated during the venture creation process. Positivist studies are often focused on business performance outcomes of new ventures, rather than how the entrepreneurs actually achieve those outcomes. This ‘input-output’ focused approach can successfully establish a correlation between human capital inputs (i.e. prior experience) and business performance. However, this does not explain the use of human capital by, and its significance to, the entrepreneurs themselves. Human capital studies have usually not considered how entrepreneurs approach the functional aspects of building their businesses, such as marketing, finance and people management (Bosma et al, 2004; Ucbasaran et al, 2006; Rauch and Rijdsdijk, 2011). This qualitative study has been able to explore how individual entrepreneurs make use of their limited pre-start-up knowledge and skills as well as accumulating new human capital assets during the venture creation process. This approach identified what functional issues the young entrepreneurs believed had been more and less significant as they developed their businesses, and how well their existing human capital had enabled them to build their ventures.

Following Neergaard and Ulhoi (2007), this study would suggest not that qualitative studies of human capital should replace quantitative studies, but rather that they are complementary to one another and both contribute to the understanding of human capital in different ways. Quantitative methods are more appropriate for measuring correlations between variables (Davidsson, 2008), for example the relationship between a combination of human capital

factors and business performance of a venture across a large number of businesses. A quantitative approach more feasibly enables large, representative samples to be investigated to statistically identify these correlations. It enables human capital factors to be reduced to a small number of numerical measurements which enables easier comparison, to discover which factors are most closely correlated with, for example, business survival (Gimeno et al, 1997). These comparisons are particularly useful if the researcher uses well designed measures of each human capital factor, drawing on qualitative investigations which clearly identify the most appropriate conceptualisations of each human capital factor. This would help to overcome the problem of measuring variables inadequately or indirectly noted by Nahapiet (2011). As Bryman has suggested, “The in-depth knowledge of social contexts acquired through qualitative research can be used to inform the design of survey questions for structured interviewing and self-completion” (2008: 618). So, in human capital research, it is important to “complement [quantitative] research focused on individual and decontextualized factors with [qualitative] investigations of emergence, interpretation and intersections of various kinds” (Berglund, 2007: 75). This will enable human capital theory to identify correlations between well-defined factors and business performance outcomes, while also developing an understanding of the causative relationships that exist.

#### **7.4 Limitations**

The generalisability of the findings of a qualitative study is weaker than for a quantitative study. As Bryman has said, “It is often suggested that the scope of the findings of qualitative investigations is restricted” (2008: 391). The sample size of this study (21 participants) is considerably smaller than the quantitative human capital studies carried out, for example by Ucbasaran et al (2006) and Gimeno et al (1997). It was also not possible to identify a full list of young entrepreneurs who fulfilled the sample criteria from which to select a random sample, so purposive sampling was used to try to identify a range of entrepreneurs with different human capital backgrounds, but this sample is less varied than a random sample.

It would be helpful to have conducted interviews with other people who worked in the young entrepreneurs’ businesses and perhaps their investors and mentors as well, to gain a fuller perspective on the young entrepreneurs’ performance, strengths and weaknesses. This would probably have required that fewer young entrepreneurs had been interviewed, however, since multiple stakeholders would have had to be interviewed alongside each participant young

entrepreneur. Some young entrepreneurs may have been wary of such a research strategy as well, which may have appeared more intrusive, and this could have limited those choosing to take part.

In mirroring the format of quantitative human capital studies, which consider many human capital factors, a significant number of human capital factors are investigated in this study (i.e. family background, education, informal ventures, work experience). While quantitative studies are able to reduce each human capital factor to a limited number of measures (e.g. the significance of family is measured only by whether a participant has a self-employed parent or not), qualitative research requires each human capital factor to be explored in more depth. More detailed qualitative human capital studies of entrepreneurs on particular areas of human capital development such as the family or education could enrich understanding of each factor. This would enable more detailed interview questioning about each particular aspect of human capital, as Kirkwood (2007) did in her study focusing only on the family and entrepreneurship.

### **7.5 Future Research Agenda**

This exploratory study of human capital and entrepreneurship has shown that using a qualitative approach offers useful and complementary insights to the more conventional quantitative studies of human capital. It has identified more precisely than existing quantitative studies how entrepreneurs acquire and use their human capital. There are new areas of potential questioning uncovered by this study that positivist studies could use to gain a fuller and more accurate picture of an entrepreneur's human capital (e.g. what subject did entrepreneurs study at university). A larger quantitative study of young entrepreneurs could include greater variation in business performance amongst the young entrepreneurs than has been undertaken in this thesis (e.g. covering a broader range of business turnovers). Such a study could consider, for example, the relationship between human capital and business performance.

Other particular demographic groups of entrepreneurs could also be studied using a similar qualitative human capital framework to this project, such as female entrepreneurs or ethnic minority entrepreneurs. A human capital framework offers a distinct advantage over some other theories if the aim of the researcher is to take a holistic approach, since it can

investigate an entrepreneur's pre-start-up human capital as well as their venture creation activities.

Applying human capital in a qualitative rather than a quantitative framework opens up the possibility to more easily make connections between human capital theory and qualitative entrepreneurial learning theories (e.g. Cope, 2005; Harrison and Leitch, 2008). Joining together aspects of human capital theory and entrepreneurial learning theory would be potentially complex, but could strengthen understanding of how entrepreneurs both *acquire* and *use* their knowledge and skills. Human capital theory has strengths in holistically considering the wide range of sources from which an entrepreneur learns new knowledge and skills over their lifetime. However, entrepreneurial learning theories focus on uncovering the cognitive and behavioural processes that underpin this learning.

Many young people are now considering an entrepreneurial career, and this is being encouraged by government and leading entrepreneurs. By building an evidence base explaining how young entrepreneurs can best prepare themselves to undertake this career route, entrepreneurship scholars can support both policy makers and young entrepreneurs themselves.

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## **APPENDIX 1: INTERVIEW GUIDE**

### **Pre-entrepreneurial career**

At what age did you first start thinking that you would like to run your own business? (Probe: At what age did you (a) become interested in entrepreneurship (b) decide to become an entrepreneur?)

Did you set up any smaller business ventures while at school/university? Probe: What role did they play in motivating you to become an entrepreneur? What do you think you learned from these if anything (knowledge, skills, attitudes, networks)?

What jobs do/did your parents do? Probe: (a) did they influence your decision to want to become an entrepreneur? (b) Did you learn anything of relevance from them?

Did anyone else influence you to want to set up a business while growing up? Probes: Did you have any key role models (e.g. other family members/ family friends/entrepreneur/teacher/popular culture, etc?) What did you learn from them? Did any of them run their own business?

Did you learn or do anything at school that helped you in setting up a business? Probe: e.g. Participation in Young Enterprise/business studies/economics?

Did you do part time work while at school?

Did you find your university education aided you in setting up a business? Probe: Did it teach you any useful skills/knowledge to run a business? Probe: Did you have any specific teaching about entrepreneurship at university? What did this consist of? Which content and teaching methods did you find most helpful?

OR: What made you decide not to go to university?

What jobs did you do during university? Did you find any of these provided relevant work experience for setting up your business? If so, how did it help? Probe: What useful things did you learn from them?

What jobs did you do after university before starting a business? Probe: Did they provide useful experience/training for starting your business?

### **Opportunity recognition/setting up the business**

What age were you when you first set up your business? How long has it been operating?

What were your goals and motivations in starting a business? Probe: Do you think these can be traced back to your earlier experience? Did you have a previous interest/hobby/part time job related to this idea?

Have you developed ways to assess achievement of these goals? Probes: Setting and monitoring targets? How structured are these

How did you first identify the idea for your business? Probes: What first led you to think that there might be a commercial opportunity in the idea you decided to develop as a business? How do you think your earlier experience assisted you in identifying this business opportunity? Did you identify/follow up any other business ideas first?

How easy or hard did you find it to raise the necessary finance to start your business? Probes: Who were/are the investors? How did you meet the investors [social capital]? And for what percentage of start-up capital? Equity? Did you receive any other forms of practical support in setting up the business?

Who have you learned most from about how to set up/run your business and what have they taught you? Probes: What was the most important thing that you learnt? Did/do you have a mentor/coach? What have you learned from them (e.g. knowledge/skills/behaviours/attitudes)?

### **Managing the business**

How has the business developed since you started it?

What have been the main opportunities and challenges you have faced? Probe: How did you manage these? E.g. in terms of management/finance/marketing?

How many people do currently employ?

What was the turnover of the business for the last complete financial year?

Tell me about your experience of managing other people. Probes: How did your previous experience/education equip you to do this? Do you think this would be easier if you were older/had more experience in doing this?

Have you sought advice from others outside the business to develop your management skills?

Do you read any literature either popular or academic about business/management/running a business? How helpful is it? What have you learned from it?

What, if any, courses have you been on, either before you started the business or since then, to help you develop your business/entrepreneurial skills? Probes: How was the learning organised/structured? What did you learn and how useful has it been?

What business networks are you part of? Probes: How helpful do you find these? Have you learned useful things from people there? Are you a member of a private members club?

How have the people you talk to/network with/do business with changed over time? Probes: did you take advice more from friends/family at the beginning and develop more professional contacts over time?

## **Reflections on the entrepreneurship**

What do you think is the most important thing about/aspects of entrepreneurship you have learned in building your business?

What would you say are the main (a) advantages and (b) disadvantages of starting a business when you are young?

Probe: e.g. credibility/investors/management/networks/technical know how/risk?

## **The future**

What are your plans for the future of the business?

Would you be able to suggest any other young entrepreneurs I should talk to?



## APPENDIX 2: SAMPLE INTERVIEW TRANSCRIPT

### Interview with Alistair, Pathway 1

Code: JH = James Hickie (interviewer); A = Alistair (interviewee)

JH: At what age did you first think that you would like to run your own business?

A: I don't know when I first started thinking about it, but very young. I started [Company Name] when I was 16 and I had a few I wouldn't call them money making ventures but entrepreneurial things when I was 13, 14. So I guess it would have been before that. So a pretty young age. The reason we started [Company Name], me and my brother, was that we ran some Land Parties which are basically gaming events where people bring their computers together and play against each other in a physical location because this was pre-internet kind of being suitable for high speed gaming. So I was doing those when I was, I think I did the first one when I was 14. And people would pay and we would get sponsors and things like that. So that was kind of the lead up to [Company Name]. And when I was 12 or 13 I had a Saturday job in like a comic and trading card shop, but then I stopped doing that and did it for myself. So when I was 13 I was bringing these from America and selling them among friends and online as well. So I was kind of doing all that kind of stuff at 13.

JH: Tell me about your parents. Did they influence your decision to want to become an entrepreneur?

A: Not in the way that they pushed me or anything like that, but I think everyone picks up parts of their personalities from their parents whether they know it or not. So my dad ran a very small computer software business kind of all his life. So as a result we had all the gear you needed in the house which obviously made it much easier for us. And obviously he was effectively self-employedX working from home. So I guess those kind of things effectively transferred to our business. And my mum was a broadcast journalist so again I don't think it's any coincidence that we've ended up being a media business. So there's no point your parents telling you what to do, but I don't think it's any coincidence that the business is kind of a blend of what our parents did.

JH: Did you have any other key role models who influenced you in your decision to want to run your own business?

A: There were probably people who were not the role models who other teenagers would have had. I guess from an early age I was reading books about Bill Gate's story or Richard Branson's story, stuff like that probably had some impact. I always found that stuff fascinating. That idea of creating something rather than having to work for someone else has always appealed to me. There's not a specific person that I would say I want to be like them, but I guess that thing again has influenced the way that I've gone about things. Me and my brother, he's four years older than me, we started the business together, so I guess he has a very similar entrepreneurial spirit and interest in the same things as me. So I guess we wouldn't have done the business if there hadn't been the both of us. He was more on the

technical side, and I was more on the kind of entrepreneurial and business side. I don't think we would have done it on our own without the other. He would have probably been happy just messing around and programming and stuff. I was really interested in getting into the business side.

JH: Did you find anything you learned at school helpful in setting up the business?

A: Certainly not at senior school level, up until GCSEs, I didn't do any kind of business related courses. No, I think probably the influence of family and my own desire to do stuff far outweighed school. I think that probably at the time I thought school was getting in the way. Though I think probably in hindsight maybe I should have paid a bit more attention. And then I went on and did A-levels, and this was while [Company Name] was running, and I did think and choose courses that were related to the business, so I did Economics and Computer Science and, I can't remember what else I did. So anyway you know things like Economics obviously. I think probably at the time I thought it was a bit abstract but actually quite a lot of those pretty simple principles that you learn at A-level, I look back now it's probably pretty good that I learned some of those things. So yeah I mean I was well on the course to doing what I was doing with the business by A-level stage and I didn't take them too seriously and I didn't tend to do that well and my attendance wasn't too high. And subsequently the business has grown and it has turned out alright. But I think even at that point I probably knew deep down that if I was going to have to rely on my A-levels for my next job or next stage of my career then I was probably going to be in trouble, so yeah it's worked out the way it has.

JH: Did your parents want you to go to university or were they happy for you to continue to build the business full time?

A: I think they were respecting of my choice really. They had both been to university and they do feel university has kind of changed a lot. And I think for me kind of the experiences I got at that stage, kind of the people I was meeting and the work trips I was getting to go on, you know, that kind of aspect of things, was as valuable, although different, to the experience I would have got going to university. And certainly three or four years after A-levels, when I would have been finishing university, I was a long way ahead of where I otherwise would have been. I think maybe they would have liked me to have had that experience, rather than just the pure learning, because I think that there is a lot of value in kind of the contacts you meet. But I think a lot of my friends that went to university it was part of the experience for them of working out what they then wanted to do, but I think I had already worked that out... if I had gone to university, I didn't need that kind of phase to go through.

JH: Would you have always been a big gaming enthusiast if you hadn't decided to pursue the business?

A: We decided to pursue the business because we were gamers and kind of gaming went through a big growth phase and the internet went through a big growth phase at the point where we were kind of tinkering with video games and websites. So it was partly being at

the right place at the right time. But I don't put it down to luck in the sense that we were interested in it because it was the exciting and cool thing and we were interested in it and playing games because we knew how cool it was. So that doesn't mean we were playing them because we were going to make a business out of it, but it was a pretty obvious step to then turn that hobby and passion into something. Right at the beginning there was certainly no business plan, but it would be misleading to say that we didn't want to make money from it. But it was more that this as the thing that we enjoy and if we can make money from it, then fantastic. And we knew we were on to something, but obviously it took several years before that turned into something which we could say was a credible business.

JH: How long has the business been operating for now?

A: So we started in September 1999, so it's ten and three quarter years now. I just turned 27, my brother's 31 now.

JH: At what stage did it turn from a hobby into a business?

A: There were bits of money, but it wasn't kind of making big money for a while. The big kind of turning point was a deal we did, which I will always remember the date, because we got paid for it on September 11<sup>th</sup> 2001. But yeah that deal we did in Summer 2001. Until then it had been a hobby and we'd got paid to make websites for people and things like that. And at that point I was living with my parents, and there wasn't a need to get a certain amount of money doing A-levels. But at that point when we did the deal, that was with a company called [Major Communications Company 1], which then became [Major Telecoms Company 2] and then [Major Communications Company 3]. So they were the big cable company at the time. So they had us build them an online gaming platform website, so that allowed us to take on some staff and kind of treat it as a proper business. So it was a few years after we started before we got a big chunk of money. And the second main milestone was probably three years past that, so the end of 2004. This was when my brother graduated, he was actually at medical school, so he graduated and became a doctor, and I took over the running of the business on my own. That was also about the same time that we stopped doing work for hire, basically money to pay the bills. At that point we decided we only wanted to do work that built our own business and not do work for hire like building websites for other people, just concentrate on the things that we own. We weren't doing work for anyone else or doing what they told us to do anymore, we were doing our own business full time.

JH: What were the goals and motivations to want to set up your own business?

A: I guess naively right at the beginning it was to do cool stuff. Later on it was to avoid, after A-levels and taking what was then considered a gap year, it was creating something that would make an income and kind of I guess avoid the shame of having to go to university if the business had closed down. Everyone in my peer group was aware that I wasn't going to university and was going to pursue my business. So there was quite a strong motivation not to mess that up. So later then motivation changes a bit, now the last few years the motivation

has been to provide something that is profitable and maybe provides a long term financial future for me and the family. But also to do it on our own terms. At no point have we ever taken any investment or given away any control of the business, so to do exactly what we choose is a very strong motivator, to not be answerable to someone else. I guess that's in my own personality. And my brother as well, because his career in the NHS was pretty short lived because he couldn't, because it was so crap in terms of management decisions and bureaucracy and things like that. And also make money at the same time. And also we've employed a lot of people we know and friends, so also for them to create a good working environment making cool stuff. Something where everyone is very motivated about producing something which is of high quality, where they get something back other than just the salary, kind of the satisfaction.

JH: Have you set specific targets for the business, and do you have ways to monitor whether you achieve those or not?

A: I mean now we have much more of a structure in place, so we have a management team and we have a budgeting process, so we try and hit our targets each year, so there's that kind of structure to it. I guess we've probably thought of a price we might sell it for, can we get there by a certain time? Genuinely it's always been thought about trying to create something good and profitable. If we don't get to that particular size and that valuation, it's a going concern. During the dot com boom it was always about growing to a certain size and many companies took investment. In a way maybe it's taken us longer to get where we are now than if we'd had third party pressure on us. But in a way, I don't really regret that because we've done it I think the right way. And I know it will persist beyond a buy out, it will have strong fundamentals.

JH: Did your brother come back to work for the business eventually?

A: No he worked as a doctor for a couple of years and then he moved up to [City X] where he's doing a PhD and teaching. And actually his PhD is more to do with computers, and he's working on the sequencing of DNA and things like that, and also keeping his hand in with the business and stuff, but he's not involved day to day with the business.

JH: Who have you learned most from in terms of setting up and running the business?

A: Probably different people at different stages. At the early stage probably our dad, he still does our accounts actually. He'd obviously ran a small business and helped us deal with a lot of things, a lot of which are still a mystery to me. Probably in the last couple of years...three years ago we appointed a chairman to the company, a guy who used to run Future Publishing for twenty years. He chairs our board and has acted as a kind of mentor to me over the last few years. He joined Future Publishing in 1988 when they had thirty staff and left as CEO in 2006 and they had 1600 staff, and they produce pretty much all the gaming magazines in the UK and the US as well and websites and events. And he's been in pretty much all the situations we've been through and a bunch more too, from growing a small media company into a big media company. So kind of the problems and the growing pains and things like

that. Sometimes I wonder how I get into some of these situations. We started the business because we liked video games. And then ten years on you're having to fire someone because they've got into a fight at a trade show under the influence of alcohol and things like that. And suddenly you're thinking I'm doing more kind of appraisals and admin work, just because in the early days I really liked computer games. I don't have a problem with doing those things. Obviously rather a lot of those things I'd not rather do, but learning from these experiences over the last couple of years, and putting the new structure in place, trying to delegate a lot more, means that I can get away from doing every staff appraisal and those kind of things.

JH: What have been the major challenges you've faced as you've grown the business?

A: Well the earliest and most obvious is always cash flow. Creating a product and then delivering on it and then getting paid can be a hell of a long process, and without external funding, that can be difficult. It can be a nine month process, it can be longer or shorter depending on the business. For us it was 6 months from setting up the business to getting some money in the bank. All the while you're paying the bills and paying some salaries and things like that. At the beginning that was a nightmare, kind of telling people you will get paid eventually. In recent years that's less of an issue for us. Especially in 2001 when we got that deal that was great for us, we kind of had a few people we owed money to, and we were just able to clear all that, that was great for us. Now the challenge is kind of about maintaining company culture and the way we do things and the way we want to behave. When it was five or six guys, that was kind of easier to do. Now we're kind of hiring people where sometimes I've not even been in on the meeting where they've been hired. And they've started work and it's come to the point where I can't sometimes even remember everyone's name. And they don't know the history of the company and they don't know how we've struggled. And they don't know why we do things as we do. And you try and integrate them and stuff, but you can easily see that getting out of control, once you've got 60, 80 staff and you've got an HR manager and stuff like that. Suddenly it's too expensive, when it was ten or fifteen guys we'd hang out and we'd go to the pub sometimes after work for a drink and we'd all be on the same schedule. Now we've got people off having kids, people getting married, and they're not all interested in socialising with us after work, it's not all like a big club. That's inevitable and it's important that some of the other stuff doesn't get lost in that process such as that they don't care so much about work or being careful about expenses. You start spending more because you don't know me, you don't know how difficult it was to spend cash in the early days. The costs start going up, people are less sociable. You could see it getting out of control, less sociable, taking less care over their work and so on. So we've had to change the way we communicate and so on. We have to communicate, we have to make sure we focus also. Because we're a growth company, we've got a lot of entrepreneurial people in the business, we could kind of go off in a hundred different directions, we've got to make sure we prioritise and do the right things at the right time. So yeah there's quite a few challenges now which are very different to the challenges early on.

JH: How many people do you currently employ?

A: We have 33 in the UK at the moment. And there's a few kind of other...because we licensed out the Eurogamer website out in other languages. So we have probably another 40 people working for us across Europe. So they don't directly work for us, but ultimately Eurogamer is responsible for their livelihoods. But they're not on our payroll. It just means we have a network of people. And we've kind of got 20 or 30 freelancers as well. So overall we've probably got about 100 people contributing to our business in some way. But 33 full time in the UK.

JH: Have you sought advice from people outside the business to develop key areas of the business like management skills or marketing?

A: Formally seeking advice, not really. What we do is we hire people from within the industry who are doing really good stuff so we've got a lot of really talented people within the business. So we've got people with different skillsets whether that's sales or PR or whatever. So we have that then my parents and the Chairman. Obviously we have lawyers and accountants. But in terms of management training and things like that, that's all kind of make it up as you go along.

JH: Are you part of any business networks?

A: Not really, I try and avoid all that stuff really. I'm just trying to think...either me or [Company Name] as a business really.

JH: What do you think are the main advantages and disadvantages of starting a business young?

A: I guess the younger you start if it doesn't work then you can do it again. You don't run out of time. You can keep trying. I guess that's one thing you hear from many successful entrepreneurs is how many times they failed before they succeeded or how willing they were to risk their livelihoods or their houses because they believed in their businesses so much. Again that doesn't apply to me apart from having a house. I mean it's not really specific to age, but it's a lot of fun, and it's very interesting. I think the disadvantages are probably the disadvantages of being able to...I guess if you've worked in a big business or for another person, then you can see what works and what doesn't from a management point of view. There's a disadvantage to not having that experience, but then you could argue that people get set in their ways and that once you have a salary it's very difficult to get out of that because you become accustomed to that way of life. I think we did a lot of learning from doing things wrong from never having done it before, that maybe with a bit of experience or advice, there's a lot of things we could have done differently. There was a big mistake we made early on, we gave everyone shares in the business, because why not. Not kind of knowing the difference between shares and shares options. And that's kind of cost us a lot of money because people have left years ago and we've had to buy out all their shares. There was no kind of legal process to get those shares back if the people left the company. So we

had to kind of buy 10% of the company back, which cost us money that we could have invested or had for ourselves. That potentially would have been a very big saving if we had had more experience.

JH: Do you find that maybe in the gaming industry it has been more natural to establish a business young than it might have been in some other industries?

A: Absolutely. In the early days of gaming it was all one or two man companies, the same with websites. Anyone could just create a website. I mean now it would be almost impossible to build a gaming website and build it to significant revenues without significant investment. That opportunity isn't there in the same way it was for us ten years ago. Now it would be something else where the opportunity was for the next set of people. I think gaming, the kind of history is geeks and people who like computers and kids. Creating a traditional business at 16, people might have struggled more.

JH: Why do you think you've succeeded where some of those other one or two people businesses have continued to be very small or failed by now?

A: I think probably the biggest reason is all the other gaming sites that started, and a lot of them did between 1998 and 1999 and the year 2000, a lot of them that wanted to be serious businesses took investment in order to grow and they built up their costs in line with those investments. So you had companies like Wireplay and Barry's World, they were all getting like a million quid or five million quid or whatever it was, and then there was no revenues to support it. And then obviously the investors didn't want them to scale back and try and maintain ten grand a month. If you've invested a million you want big returns on that investment. So as we were just growing slowly but surely, that's when everyone else was kind of going bust and disappearing. So the number one thing for us was not taking investment. I mean that wouldn't always be the right thing to do and I probably would want investment now. Not everyone has ten years to build something. I mean ethically we were always trying to do the right thing. I mean fundamentally we always tried to pitch it as a family business and we tried to do good stuff. That won a lot of support in the industry. I think that meant people wanted to support us because they liked the way we did things and a belief in what we were doing. This way of doing things I think won a lot of support from advertisers and people in the gaming industry which I think was kind of disproportionate to our size or audience at that time.

JH: What is the current turnover of the business?

A: Last year was £X million. This year about £X million forecast something like that.

JH: What would you plan to do in the future?

A: Let me see. There's certainly other things I've been asked to get involved with or could get involved with but generally I don't because I like to focus on one thing. Also thinking about new things, it would so much easier to start doing new things, because of all the resources we have at [Company Name] would make it easier. We are probably the last

business in gaming left that's big enough to matter but small enough still to be acquired. As a result I think there's quite a lot of interest out there from other people. But as long as we run it as a good business between now and then, that will remain I think.

JH: Are there any other entrepreneurs you think I should talk to for the research?

A: There's one other guy who I went to school with who created a business, then sold it, then created another business. [Name of suggested entrepreneur], he created a site called [Media Company]. He's doing some other stuff now. There's a guy who did the [Transportation Company], I think he made quite a lot of money, I think he's a bit younger than me.