Impact of Social and Human Capital on Entrepreneurship: A study in Pakistani Prospective

Muhammad Abrar-ul-haq[1], Ghulam Muhammad Qamri [2], Farheen Akram[3]
[1]School of Economics, Finance and Banking, Universiti Utara Malaysia
[2]Department of Economics, The Islamia University of Bahawalpur, Pakistan
[3]Department of Commerce, The Islamia University of Bahawalpur, Pakistan

Abstract
Whether entrepreneurial business high performance is already there in business or it can be created through the process of opportunity recognition in the society. Based on these points it seems that entrepreneur must have some kind of knowledge comes through education, past experience, social contact, special source of information. This study is based on primary source of data which was collected through survey of entrepreneurs from the areas of Mardan, Peshawar, and Rawalpindi. The questionnaire approach was used for data collection and 70 respondents were selected for sample size. Result of this study revealed that the opportunities for their business success, so human capital (knowledge, skill, experience, education) and social capital (social contacts, social networks, social club) has positively affected the business rate of success.

Key words: Social Capital, Human Capital, Opportunities, Entrepreneurship, Pakistan

Introduction
Many individuals make plans at the beginning stages of the business but their activities about the business remains bounded. There are several people who start a new business but eventually fail to manage it and some others get a lot of success because they have knowledge, prior experience, and their social contacts - things that are most important for starting and managing a business. The main reasons are, peoples who start business, start it with different levels of the social and human capital and these two factors are in their mind. If they consider the social capital (social contact, network, social organizations such as social club etc.) and human capital (knowledge, skill, education and experience) in business, it will directly affect the rate of success of the business and in return, the economy of the country will be strong. A lot of research has been done on social and human capital separately but all the researchers excluded the main factors of both of these terms in their research, and mostly a few articles are written on the social and human capital concepts and its importance and implementation in the business. Social capital is the connection in the society with peoples, it has a great impact on the rate of success of the entrepreneurship business, if social contact is strong, the rate of success will be more, and it has a great contribution and other factors such as personal network, business network, and contact with designated agencies is likelihood for successful activities of entrepreneurship.

Primary purpose of this research for an entrepreneur is to find out opportunities in society and act upon it efficiently and provide them the things which are important for this implementation in the business such as (formal education, experience, social contact). I mostly included those firms who fail to manage and also those who have just started new firms and also those entrepreneurs which are unable to manage their business effectively & excluded those firms who are well-established.

On the other hand human capital or the education attainment of the entrepreneur also significantly affects the output and the growth of their business (performance of the organizations). A standard approach is that to treat human capital, or the average years of schooling of the entrepreneur , as an ordinary input in the production function into business, to get specialize in their major area of work, but mostly entrepreneurs have below bachelor and intermediate qualification and do not know how to manage their business. The main objectives of the study are as follows:

- Determine how a research gap regarding human and social capital influences the entrepreneur's success in small business in Pakistan.
- Investigate the role/importance of formal education & previous experience in effective entrepreneurship environment.
- Examine the importance of social network in opportunity recognition in surroundings and its impact on business performance.

Corresponding Author: Muhammad Abrar-ul-Haq, Ph.D Scholar, School of Economics, Finance and Banking, Universiti Utara Malaysia.

- Investigate the rapid rate of success if entrepreneur consider & act upon the social network & human capital concepts in their business.
- Examine the Importance of social and human capital in economic growth of country.

Literature Review

Social capital is essentially based on the community trust by Fukuyama (1995) which is introduced in the urban planning literature many decades ago by Jane Jacobs (1960). Although she did not explicitly define the term social capital, her usage referred to the value of networks. Political scientist Robert Salisbury (1966) advanced the term as a critical component of interest group formation in his 1969 article "An Exchange Theory of Interest Groups" in the *Midwest Journal of Political Science*. Sociologist Pierre Bourdieu used the term in 1972 in his *Outline of a Theory of Practice,* and clarified the term some years later in contrast to cultural, economic, and symbolic capital. Sociologists James Coleman, Barry Wellman and Scot Wortley adopted Glenn Loury's (1977) definition in developing and popularizing the concept. In the late1990s the concept gained popularity, serving as the focus of a World Bank research program and the subject of several mainstream books, including Robert Putnam's *Bowling Alone* and Putnam and Lewis Feldstein's *Better Together*.

The concept that underlies social capital has a much longer history; thinkers exploring the relation between associational life and democracy were using similar concepts regularly by the19th century, drawing on the work of earlier writers such as James Madison (*The Federalist Papers*) and Alexis de Tocqueville (*Democracy in America*) to integrate concepts of social cohesion and connectedness into the pluralist (numerous) tradition in American political science. John Dewey may have made the first direct mainstream use of "social capital" in *The School and Society* in 1899, though he did not offer a definition. Also research from the perspective of Westland and Bolton (2003) and Westland and Nilsson (2005) concludes many sense such as in economic sense (productivity), producer surplus sense (quality), combination of all skills related to entrepreneurship. There is also convincing evidence that social capital plays a prominent role in a networked society ,where reliability, trust, standardization and inter-actor operations are the keys to success and competitive performance (Sobel, 2002)human capital Cooper (1993) proposed a model that includes social capital and human capital (based on Becker 1975) of the entrepreneurial environmental conditions, founding processes and initial firm characteristics, and in which entrepreneurial characteristics and environmental conditions influence founding processes and initial firm characteristics. All these factors are seen to affect business performance. The literature offers an evidence of the importance of human capital, in the pursuit of self-employment (Sanders and Nee 1996). According to Sanders and Nee (1996) human capital refers to possession of skills, work experience, knowledge, and other useful characteristics (e.g., motivational incentives, leadership style and locus of control) that facilitate self-employment. Human capital factors in recent studies have been found to affect new venture performance include age, gender, ethnicity (Cooper et al. 1994), education(Shepherd et al. 2000, Lee and Lee 2004, Lee and Chang 2005), relevant industry experience (Baum et al.2001, Kakati 2003, Florin et al. 2003, Lee and Chang, 2005) and general management experience (Brownand Hanlon 2004). Human capital such as education and language proficiency enable immigrants to effectively deal with a range of challenges. Some scholars have claimed that the success of entrepreneurs can be attributed to their superior human capital rather than to business ownership (Sanders and Nee 1996, Borjas 1990). Bates (1994a, 1994b) has shown that human capital resources are positively related to business longevity and profits. Ethnic entrepreneurs with a higher educational qualifications appear to have greater chances for success (Basu 1998, Bates 1994a, 1994b, Birley and Ghaie 1992). However, other studies find that higher education leads to a lower chance for becoming self-employed (Menzies et al. 2003, Mesch and Czamanski 1997, Evans 1989).

The concept of human capital was originated from Schultz's "Investment in Human Capital" published in American Economic Review in 1961. Schultz thought that human capital involved technology, experience, and knowledge. After that, Becker authored a book called "Human Capital" in 1964, formally recognizing the significance of human capital as a dedicated research subject. With much contribution from the Nobel winner and economist, Schultz's introduction of the concept of human capital in 1979, Schultz had illustrated analyses based on a large quantity of case studies, that human resource was one of the foremost resources while investment in education and training is the main component of human resource investment. Schultz thought that the achievements from education represented the benefits from human capital, namely human capital itself. On the other hand, Becker thought that investment in human capital came from all investments to improve human resource, and monetary income and consumption. Becker pointed out that organizations could manage and invest in human resource in order to further grow such human capital, recognizing higher potential of employee contribution. Such investment in human capital will result in higher employee productivity and organizational performance. Since 1999, US federal government started to replace human resource with human capital in many publications and reports. With the arrival of the knowledge economy, the renewed understanding of human capital has produced to a great extent.

**Measurement of Human Capital Factors**
Known researchers, organizations and management consulting firms think that the key performance indicators for human capital should be the following:
Skandia (1998) use indicators such as leadership index, motivation index, empowerment index, number of employees, employee turnover, employee average tenure, number of managers, number of female managers, average age of employees, training cost per employee, percentage of employees under 40, average training days per year, proportion of employees working in associated companies. Wah (1999) Edvinsson & Malone (1999) takes employee productivity, company investment in training, employee education and credentials, professional background and years of working experience as measurement factors of human capital. Sveiby (1999) use indicators such as number of years of profession, level of education, training and education costs, grading, age, and seniority. Edvinsson & Malone (1999) use indicators such as leadership, motivation and empowerment index, number of employees, employee turnover rate, number of managers, number of long-term full time employees, average age of employees, employee familiarity with information technology, average number of days spent on training per year, number of long term full-time employees left per year, percentage of managers with high education...etc.
Grossman (2000) proposed 10 key performance indicators for human capital as revenue factor, voluntary separation rate ,human capital value added, human capital ROI, total compensation revenue percent, total labor cost revenue percent, training investment factor, cost per hire,. Healthcare costs per employee, turnover costs.

Research framework
This research mainly focuses on the measurement of key factors in human capital through data gathering and analysis from different industries and related interviews, compiled specifically with relevant literature in human and social capital factors. Human and social capital questionnaires are constructed and collected for further comprehensive descriptive statistics, reliability analysis, and factor analysis to inspect and filter out key factors in human capital. It falls into key dimensions to measure human and social capital namely: leadership capability, education, experience, information capability and Social network.
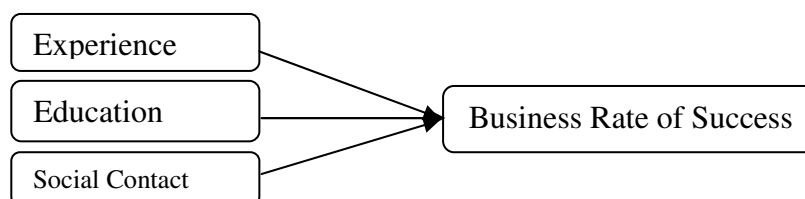
The explanatory profile composed of three main constructs through empirically test namely: social capital (e.g. social network participation, other relatives as entrepreneur), human capital (personal and business characteristics), and business performance.
Hypothesis:
H_{1a}: There is positive and significant effect of experience on rate of success of the business.
H_{1b}: There is positive and significant effect of education on rat of success of the business.
H_{1c}: There is positive and significant effect of social network on rate of success of business.
Data and Methodology
This study is based on primary source of data which was collected through survey of entrepreneurs from the area of Mardan, Peshawar and Rawalpindi. The questionnaire approach was used for data collection. The questionnaires will contain personal information questions (e.g., demographic and socioeconomic data), and also contain the questions about social network and business rate of success. The sample is selected using random sample technique. A total of 90 questionnaires were floated but received completed responses from 70 respondents. In order to determine the significant factors affecting the business rate of success an econometric regression and ordinary least secure (OLS) method is used as specified in equation (1).
$$ROS = \beta_0 + \beta_1 EXP + \beta_2 EDU + \beta_3 SN + \mu_i \qquad \text{-------------------- (1)}$$
Where, Business Rate of Success (ROS) is dependent variables, Experience (EXP), Education (EDU) and Social Network (SN) are explanatory variables, β_i are the parameters to be estimated and μ_i is the stochastic error term.
Results and Discussion
Descriptive analysis
Descriptive analysis is used to describe the general characteristics of data. This study use mean, standard deviation of demographics, such as age, sex, marital status, occupation, education. Their

www.iiste.org

Table 1: Descriptive Statistics

	Mean	Standard deviation
Sex	1.43	0.497
Age	1.01	0.1
Marital Status	1.01	0.1
Occupation	1.48	0.986
Education	4.84	0.367

Reliability of Instrument

For this purpose we use Cronbach's Alpha. Most of the time 0.50 or above values is acceptable for reliability analysis for social sciences. We can see in the table given below that all the variables use four items for operationalized purpose. Values in the given table shows that the instrument used is reliable and can be used to measure the effect of experience, education, social network and its effect on rate of success. Overall reliability is 0.726.

Table 2: Reliability Analysis

Variable Name	Cronbach's Alpha
Experience	0.702
Education	0.744
Social network	0.721
Rate of success	0.740
Overall reliability	0.726

Correlation

In order to calculate the degree of association between investor Variables, this study uses correlation matrix. Generally values of correlation range from -1 to +1. This can be defined as strong negative correlation to strong positive correlation. This study expects positive correlation between Variables. Values in the given table show that there is positive correlation between Variables. This study shows moderate positive correlation between experience and education, and social network and the rate of success. However, the relationship is weak between social network and rate of success.

Table 3: Correlations

		ROS	EXP	EDU	SN
ROS	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	101			
EXP	Pearson Correlation	0.457(**)	1		
	Sig. (2-tailed)	0.000			
	N	101	101		
EDU	Pearson Correlation	0.538(**)	0.369(**)	1	
	Sig. (2-tailed)	0.000	0.000		
	N	101	101	101	
SN	Pearson Correlation	0.308(**)	-0.124	-0.023	1
	Sig. (2-tailed)	0.002	0.217	0.819	
	N	101	101	101	101

** Correlation is significant at the 0.01 level (2-tailed).

Regression analysis

Regression analysis is used to find the magnitude of relationship between independent and dependent variables. The results of regression analysis are shown in the table below.

Table 4: Regression Analysis

	β	Std. Error	t- value
(Constant)	-0.574	0.468	-1.226
EXP	0.418	0.094	4.451**
EDU	0.401	0.075	5.381**
SN	0.366	0.074	4.968**
R^2= 0.495	F-statistic = 31.739	N = 70	df= 3

** significant at the 0.01 level

Table 4 shows that all the three independent variables EXP (Experience), EDU (Education) and SN (Social Network) are positively related with rate of success. Experience shows a positive value of 0.418 which means that one unit change in experience will increase rate of success by 0.418 units, and this result is significant at less than one percent level of significance. One unit change in Education will increase rate of success by 0.401 and the result is significant at less than one percent level of significance. Similarly one unit change in social network will increase rate of success by 0.366 units and that result is also significant at less than one percent level of significance. R square shows value of 0.495 which means that 49% of the rate of success has been defined by experience and education, social network.

Conclusion and Recommendations

This research mainly focuses on the measurement of key factors in human capital through data gathering and analysis from different industry and related interviews, compiled specifically with relevant literature in human and social capital factors. This research has created indicators covering four dimensions in human and social capital and its variations measurement. Whether entrepreneurial business high performance is already objectively there in business or it can be created through the process of opportunity recognition in the society. Based on these points it seems that entrepreneur must have some kind of knowledge which comes through education, past experience, social contact, special source of information. Result of this study revealed that the opportunities for their business success so human capital (knowledge, skill, experience, education) and social capital (social contacts, social networks, social club) has positively affected the business rate of success.

This research suggests that for the success of business and economic development, it is necessary to invest in education, training and skills. Moreover Government should enhance opportunities to increasing the social capital in society. Introduce modern means of communication and technology, improve quality of basic and adult's education in the country. Basic education plays an important role in development or improvement of human capital. It is necessary for policy makers to consider the importance of adult's education which enables the people how to enter in professional life, provide skills, increase self-learning, increase productivity and efficiency. By investing in basic and adult's education a country can able to make rapid economic growth.

Research Limitations

Currently, there are very few formal research publications on human and social capital concepts in entrepreneurship sector in Pakistan, with primary focus on related product quality improvement, industrial production workflow and key factors on new product design, innovation, etc. Research on human and social capital in household sewing machine industry has not been formalized into specific publications. Research constraints are mostly two parts as the following:

a) The research subject for questionnaire is entrepreneurship sector in Pakistan agreed to collaborate with. Therefore, this sector is not representative of the entire Pakistan industry.

b) This research has faced limitations in resources and time. Therefore, it is almost impossible to conduct comprehensive questionnaire investigation across all related areas. With some more sufficient level of time and resources, this research could have performed a wider range of research activities to gather more comprehensive research data.

Future Research

According to the research principles and motivation, this research suggests the two key points derived from research results and data analysis: First, whether entrepreneurs in Pakistan should enhance its capabilities in social network through training and quality of education. Thorough reliability analysis in questionnaires and descriptive statistics has been commonly considered by the industry or interviewees to be fairly insignificant. However, based on market reports and expert debates in this industry, this particular industry has been experiencing a significant lack of human and social capital concepts as compared to other industries. It is surprising to witness these two different results, which leads to some interesting notion on whether an effective social network, education management or practice exists in entrepreneur industry, or whether other factors contribute to such contradictory situation. Therefore, subsequent research might need to incorporate this for

further research work. Second, whether entrepreneur industry in Pakistan emphasizes on innovation becomes another key research topic. This research studies this specific industry by conducting research on industry reports and interviews with key industry experts, reached to a consistent conclusion that entrepreneur in Pakistan needs to reinforce its innovation capabilities, experience, training, and social networking product development. However, this research has been able to prove the innovation which has significant effect, whether from descriptive analysis. Therefore, subsequent research might need to incorporate this for further research work.

References

Impact of social capital on nascent entrepreneurship written by Thailand institute of informationtechnology, research conducted in 2002.

Acs, Z.J., and Armington C., eds. (2006). Entrepreneurship, geography, and American economicgrowth Cambridge University Press, Cambridge

Acs, Z.J., and Audretsch D.B., eds. (1993). *Small Firms and Entrepreneurship; An East-WestPerspective*, Cambridge University Press, Cambridge.

Becker, Gary S. (1975). Human Capital – A Theoretical and Empirical analysis with SpecialReference to Education, The Press of Chicago University, Chicago.

Jacobs, J. (1961). *The Life and Death of Great American Cities*, Random House, New York

Johnson, B.R. (1990). Toward a Multidimensional Model of Entrepreneurship: The Case of achievement Motivation and the Entrepreneur, *Entrepreneurship Theory and Practice.*

Putnam, R. (2000). *Bowling alone: The collapse and Revival of American Community*, Simon &schuster, New York.

Walton-Roberts, M., and Hiebert D. (1997). Immigration, Entrepreneurship and the Family:Indo-Canadian Enterprise in the Construction Industry of Greater Vancouver, *CanadianJournal of Regional Science*, vol. 20, nos. 1-2, pp. 119-140.

Werbner, P. (1999). What Colour 'Success'? Distorting Value in Studies of EthnicEntrepreneurship, *The Sociological Review*, vol. 47, no. 3, pp. 548-579.

Westlund, H. and Bolton R. (2003). Local Social Capital and Entrepreneurship. *Small BusinessEconomics*, vol. 21, pp. 77-113.

Westlund, H. and Nilsson E. (2005). Measuring Enterprises: Investments in Social Capital,*Regional Studies*, vol. 39(8), pp. 1079-1094.

Brücker, H., Epstein, G.S., McCormick, B., Saint-Paul, G., Venturini, A., Zimmermann, K.F.(2002). Managing migration in the European welfare state. in: Boeri, T., Hanson, G. and

McCormick, B. (eds.), *Immigration Policy and the Welfare System*, Oxford UniversityBrown, T.C., and Hanlon D. (2004). Validation of Key Behaviours for EffectiveEntrepreneurship, Paper presented at the BKERC, Glasgow June.

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
http://www.iiste.org

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: http://www.iiste.org/journals/ All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: http://www.iiste.org/book/

Academic conference: http://www.iiste.org/conference/upcoming-conferences-call-for-paper/

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar