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***Review Paper***

# HUMAN CAPITAL AND VENTURE PERFORMANCE: THE ROLE OF ENTREPRENEUR'S CULTURE AND BUSINESS ENVIRONMENT IN NIGERIA.

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## ABSTRACT

Human capital is getting a wider attention with increasing globalization and competitiveness among enterprises and nation states. Both developed and developing countries put emphases on a more human capital development towards accelerating their economic growth and development. This paper examines the moderating effect of entrepreneur's culture and business environment on the relationship of human capital and venture performance. In this study, Human capital was measured in terms of entrepreneur's education, start-up experience and prior industry experience while venture performance is viewed in terms of sales growth and employment growth. Finally, the paper develops a model that explains the relationship between human capital and venture performance with a moderating effect of entrepreneur's culture and business environment. We investigated fifty four small firms in Nigeria. A multi-stage random sampling and questionnaire were employed. The authors hypothesized that higher levels of inadequate entrepreneur's education, industry and start-up experience moderated by culture and environment led to poor venture performance. A multiple regression analysis was used via SPSS software. The study observes that inadequate entrepreneur's human capital moderated by business environment and/or culture has a significant effect on venture performance. We conclude that the relationship between human capital and venture performance is being influenced by other variables. Finally the study suggests among others that the government, its agencies and non-governmental organizations should embark on a massive awareness campaign among small business entrepreneurs on the effect of culture on venture performance.

**KEYWORDS:** Human capital, entrepreneur's culture, venture performance, small business and business environment.

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## INTRODUCTION

Human capital according to [1] is a term used by 'neoclassical economists' to describe the stocks of knowledge and skills which enable individuals to create economic value. Human capital according to [2], the term "human capital" has been defined as a key element in improving a firm assets and employees in order to increase productivity as well as sustain competitive advantage. To sustain competitiveness in the organization human capital becomes an instrument used to increase productivity. Human capital refers to processes that relate to training, education, and other professional initiatives in order to increase the level of knowledge, skills, abilities, values, and social assets of the owner/manager or an employee that will lead to their satisfaction and performance, and eventually on a firm performance. It is also seen as the sum of the abilities and knowledge of individuals. It measures the quality of labour supply and can be accumulated through education, further education and experience. Many researches have in the past defined venture performance, for example [3] proposed three measures of venture performance, such as: profits of the firm, employment created by the firm, and the survival period of the firm. In a different study [4] introduced three possible outcomes of business success namely: Failure; marginal survival; high growth and three different indicators reflecting growth and economic performance were chosen: sales growth, employment growth and profitability.

Across the globe, growing number of people are venturing into the world of small business to apprehend their dreams of owning and operating their own businesses. These entrepreneurs are reshaping the business arena, creating a competitive World of businesses which bring about efficiency in the global economy. With astonishing drive, small venture creators have introduced innovative products and services, created new jobs, opened emerging markets, and in the process enjoy and satisfied their entrepreneurial drive.

Small businesses (SBs) create new employment opportunities, open up chances for growing social mobility, promote economic flexibility, and contribute to competitive environment and economic efficiency [5]. However, SBs fail in an alarming rate in their first to third year of establishment [6]. Most entrepreneurship literature focused on successful ventures, and why ventures fail. Thus, little is known about how entrepreneur's human capital is moderated by his/her culture and environment to affect ventures performance.

This study is an attempt to assess the effect of entrepreneur's culture and environment on human capital and venture performance in Nigerian small businesses and proffer a possible intervention to help foster growth and success of the business venture.

## LITERATURE REVIEW

Many scholars in entrepreneurship have focused on examining relationships between entrepreneurial characteristics and venture performance (e.g., [7]; [8]; [9]; [10]; [11]; [12]. On average, they have shown that entrepreneurs' human capital (education and experience) is positively related to entrepreneurial venture performance [13]. In other words: small businesses are more likely to be founded and run by teams of entrepreneurs with a high level of human capital [14]; [15]; [16].

Human capital is the knowledge and skills acquired through formal and informal learning that resides within individuals [17] and relates to inter-generational transmission of knowledge and learning activities. According to the literature, while human capital is a favourable resource for all employment the effects are more pertinent to some careers. [18] explains that individual with higher stocks of human capital and various skills are better able to make use of their resources in entrepreneurship than in a salaried job. Many researchers have argued that the qualities entrepreneurs bring to new ventures largely depend on resources built up through their education and experience [19]; [20]; [21]; [22]; [23]; [24].

The foundations for our understanding of human capital were established by economists such as Adam Smith, JS Mill and Alfred Marshal. In particular, recognition that people as well as machines, building and land were 'productive resources'. [25] identification of the division of labour as a key element in enhancing the 'dexterity of workers' was central to the development of efficient systems of production (see 1993 edition).

Human capital came to prominence in the 1960s with the work of [26] and [16] although explicit use of the term is attributed to [27]. [26] argued that post-war economic recovery was the result of a healthy and well-educated population. Human capital is accumulated as an individual invests in their education, health and experience. [28] work on the nature of 'post-industrial society' stressed the importance of knowledge workers to organizations and to the economy. [29] argues that the human capital approach which he helped pioneer led to an entirely new way of examining labour markets. Human capital theory is based on the principle that the more workers invest in education and training then the higher their earnings. Although, [30] argue that links between investment in schooling and subsequent earnings is a topic which has been 'thoroughly researched'. In fact, they go on to suggest that there is a curvilinear relationship between time spent in schooling and lifetime earning as a result of opportunity costs. Thus, base on the prevailing literature the following hypothesis was formulated:

## RESEARCH HYPOTHESES

**H1:** Inadequate entrepreneurs' education moderated by environment and/or entrepreneur's culture negatively affects venture performance.

Entrepreneur's experiences in the relevant industry have been considered as the strong factors of the human capital [3]. They pointed out that experience is also important in determining business success. Having had experience in the same industrial sector as the newly founded business increases the probabilities of success in growth and in survival. According to their results possessing human capital appears to be important for the duration of the business also.

The main finding of the study of [31] is that the endowed level of talent of a small business founder is not the unique determinant of performance. Rather, investment in industry-specific and entrepreneurship-specific human and social capital contributes significantly to the explanation of the cross-sectional variance of the performance of small firm founders. More precisely: industry-specific investments in human capital such as experience in the specific industry enhance performance, irrespective of the performance measure used. In addition, human and social entrepreneurship-specific capital investments, such as prior experience in starting up a business and the membership of an association for small business founders generate more experience for a small business founder to survive. Moreover, investments in human and social capital are widely believed to improve the entrepreneurial performance as well as performance of employees [32]; [33]; [34].

According to the findings of [35], human capital influenced both survival and growth (except for gender, with women owned ventures being less likely to grow but just as likely to survive). Management know-how variables had more limited impact on business success. Having parents who had owned a business contributed to marginal survival but not to growth. Industry specific know-how contributes to both survival and growth. Also they observe that specific human capital compared with general human capital is more likely to contribute to entrepreneurial success and to superior business performance (e.g. business survival and employment growth). In addition, entrepreneurs with high levels of general human capital attributes such as high level of education, management experience, as compared with individuals with lower levels, are more likely to have higher expectations regarding the firm's economic performance. It was found-out that founders of the rapid-growing firms in their research sample were better educated, have a more compelling 'entrepreneurial story', and have a higher incidence of prior industry experience than the founders of the slow-growth firms.

Owner/managers starting a new venture in an industry they have specific work experience are expected to outperform those without such industry-specific work experience [36]. Entrepreneurs who came from similar businesses may bring with them directly relevant knowledge bases, experience, and relationships that significantly reduce the liability of newness [14]. Bringing industry-specific experience to one's new business venture enhances performance; operating one's own firm is hypothesized to enhance further one's industry-specific experience. They also observe that success requires knowledge of the industry and the experience gathered through occupation. By arguing the resource based view of firms in achieving competitive advantages, many researchers pointed out that the importance of non-imitable human capital i.e. industry specific experience on venture performance and success (for example, [37]; [38] has this view).

Therefore entrepreneur's industry specific experience and start-up experience are very important elements that influence venture performance. Individuals who have greater educational attainments, greater work experience, especially in the same sector as the new firm (i.e. industry-specific human capital), and greater entrepreneur-specific human capital developed either through a managerial position in another firm or in prior self-employment episodes, are likely to have better entrepreneurial judgment and more specialized knowledge than other individuals. So, they are in a better position to seize neglected business opportunities and take effective strategic decisions crucial for the success of the new firm. Prior entrepreneurial experience is one of the most consistent predictors of future entrepreneurial performance [39]. Launching a new venture is a complex task, and entrepreneurs with prior start-up experience have a distinct advantage. In addition, experienced entrepreneurs are more likely to avoid costly mistakes than entrepreneurs with no prior entrepreneurial experience. Hence the following hypotheses were developed from the prevailing literature.

**H2:** Inadequate entrepreneurs' industry experience moderated by environment and/or entrepreneur's culture negatively affects venture performance

**H3:** Inadequate entrepreneurs' start-up experience moderated by environment and/or entrepreneur's culture negatively affects venture performance.

**ENTREPRENEUR'S CULTURE**

It was observe that beyond the negative or adverse economic circumstance of individuals, the value system of a people is a great determinant of the desire and capacity of people becoming entrepreneurs. Specifically, the study's of [40] reveals that the prevalent socio-cultural characteristics, specifically, the value system has enormous negative influence on the emergence of entrepreneurs. Moreover, his findings also indicate that it is not all a negative influence but in some ways the Nigerian socio-cultural environment has positively influenced the emergence of Nigerian entrepreneurs.

The socio-cultural environment of business consists of both the social system and culture of a people. It is refers to intangible elements created by man which affect his own behaviour, relationship, perception and way of life, and his survival and existence. Similarly, socio-cultural environment includes all elements, conditions and influences which shape personality of an individual and potentially affect his attitude, disposition, behaviour, decisions and activities. These elements include beliefs, values, attitudes, habits, forms of behaviour and life styles of persons as developed from cultural, religious, educational and social conditions [41].

This item refers to rules, shared values, beliefs, norms and code of conduct that is culturally rooted. The difficulty in changing these values and its significant impact on the socio-cultural environment can influence the level of success of entrepreneurs [42]. In Malaysia for example, it has been debated how Malay culture which is translated under the concept of Adat is very much intertwined with Islam, the official religion of Malaysia. Studies on the concept of [43] have shown how Malay traditional culture, belief and practices of Islamic cultures were practiced by Malay women businessperson in Kelantan, Malaysia. This item is used to examine whether or not these values are adapted in the respondent's business activities and its influence on the business growth.

Thus, socio-cultural environment of business, in relation to venture performance, can be defined as consisting of all elements of the social system and culture of a people which positively or negatively affect and influence entrepreneurial activities, behaviour and performance, and entrepreneurship development in general. All such elements which condition the values, thinking and action of an individual with to venture creation and performance comprise the socio-cultural environment of entrepreneurship.

Culture is an environmental influence defined by [44] as those beliefs, values and techniques for dealing with the environment which are shared among contemporaries and transmitted by one generation to the next. The culture of a people as noted by [45] determines their identity, abilities, their skills and the technologies of which they are capable. Culture exerts strong influence on behaviour including the behaviour of organizations within it. Thus, the culture of an organization (organizational culture) could be situated to a large extent within the setting of the culture of the society in which it operates.

National culture is the values and attitudes shared by individuals from a specific country that shape their behaviour and beliefs about what is important [46]. Research indicates that national culture has a greater effect on employees than does their organizational culture [47].

Excellence in everything should become our national philosophy. We need to borrow a leaf from Japan, which through the pursuit of the philosophy of quality in everything rose from the rubbles of the Second World War to become one of the leading players in the global market. [48] has rightly noted that, we need to create an environment of openness, honesty, challenge and support with particular emphasis on the virtues of hard work, integrity and excellence.

Ethnicity does influence one's ability to set-up a business and raise capital through social networks. It may also partly account for different levels of innovation in small business [49]. [50] pointed out that a group's "propensity to generate autonomous, risk-taking, innovative, competitive, aggressive and proactive entrepreneurs and firms is based on its cultural foundation." Small entrepreneurs of particular ethnic groups may have access to rotating ethnic based financial capital, ethnic based market and social capital in their environment that non-members may not be able to access [49]. Such social capital helps ethnic based small enterprises to gain competitive advantage.

[49] in his Ethnic Entrepreneurs study, highlights, how the cultural background influence their ethnic business. He highlights that, the business success with strategies, heavily depends on the nature of ties among co-ethnics and on the shape of social networks in which immigrants are embedded. [51] studied the enterprise culture and how an entrepreneur influence to act in such a way. [52] argues that ethnic groups

that have produced high number of entrepreneurship are also displaced groups. Hence, culture is a barrier for entrepreneurial activity. It is clear that especially among minority businessmen ethnic feeling play an important role in determining the type of business, location of the business and business links [53].

There are several studies on the impact of economic and political environment on entrepreneur's business performance. However, very few studies on the impact of entrepreneur's cultural and personal background on his/her business practices. An entrepreneur is thought of on the lines of a dynamic behavioral or cultural force. In fact, it is his/her system of values, beliefs and artifacts that determine his/her mindset on how to govern in the business cycle. In fact, this mindset is the result of entrepreneurs' past experimental learning, from socio-cultural environment.

Hence, the study focuses mainly on assessment of inadequate human capital on venture performance. In the conceptual model, inadequate human capital (education, industry experience and start-up experience) represents the main independent variables, while venture performance represents the dependent variable. There are moderating variables (business environment, and culture of the owner/manager) may determine the effect of the independent variables on the dependent variable. All the three independent variables are assumed to have negative effect on the dependent variable (venture performance). While on the contrary, the moderating variables will determine the true or otherwise of the relationship between the independent variables and the dependent variable.

**BUSINESS ENVIRONMENT**

Business Environment may be defined as a set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization. Business environment has two components: (i). Internal environment and (ii). External environment.

INTERNAL ENVIRONMENT:

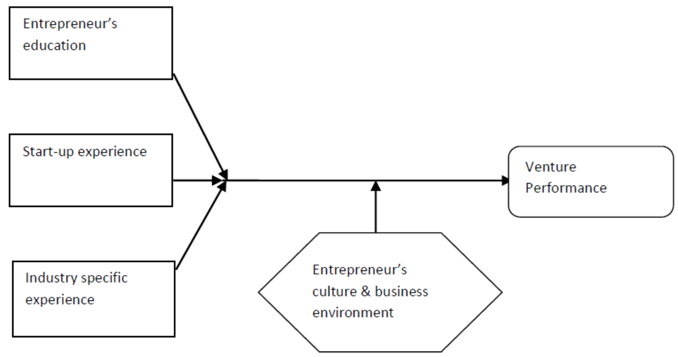
It includes five Ms i.e. Man, Material, Money, Machinery and Management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise.

EXTERNAL ENVIRONMENT:

Those factors which are beyond the control of business enterprise are included in external environment. These factors are: Government and Legal factors, Geo-Physical Factors, Political Factors, Socio-Cultural Factors, Demo-Graphical factors etc.

**CONCEPTUAL MODEL**

**Figure 1:** Venture Performance Model




The model in fig. 1 above shows the expected relationship between the independent variables: Entrepreneur's education, start-up experience and Industry experience while the dependent variable is venture performance and the moderating variables are entrepreneur's culture and business environment.

## METHOD

The study obtained the data using a multi-stage random sampling of 54 small businesses survey in Bauchi and Gombe States of Nigeria. Structured questionnaires with five points Likert-scale (strongly agree, slightly agree, not sure, slightly disagree, strongly disagree), was employed and distributed to 60 owner-managers of small firms 30 in each state. 54 questionnaires were returned 30 from Gombe and 24 from Bauchi. The questionnaire focuses on their level of education, years of industry experience, start-up experience and venture performance, as well as the influence of his/her culture and business environment on the three human capital elements mentioned above. Therefore, the authors investigated 54 small firms and the study was conducted in 2013.

## ANALYSIS

CORRELATIONS MATRIX

| | Mean | Std. Deviation | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|---|
| Sales growth | 11.8936 | 4.10871 | 1 | | | | | | |
| Employment growth | 11.2746 | 4.01441 | .444** | 1 | | | | | |
| Entrepreneur's education | 4.7606 | 2.57905 | .118 | .211 | 1 | | | | |
| Industry experience | 3.9859 | 2.09012 | .028 | .233** | .241** | 1 | | | |
| Start-up experience | 3.2893 | .87975 | .005 | -.019 | -.223* | .008 | 1 | | |
| HC × entrepreneur's culture | 175.9500 | 105.32318 | .055 | .220* | .574** | .519** | -.006 | 1 | |
| HC × environment | 265.5667 | 119.58020 | .037 | .217* | .536** | .548** | .119 | .734** | 1 |

Correlation is sig. at the 0.05 level (2-tailed)

Correlations presented in table 1 shows three things. First, the table shows the value of Pearson's correlation coefficient between every pair of variables (we can see that the industry experience had a large positive correlation with venture performance, r =.188*, followed by entrepreneur's education with a positive correlation of .178*, then start-up experience with insignificant correlation of .031 and finally, the moderating factors entrepreneur's culture with positive correlation of .180 and business environment with .159). Second, the two-tailed significance of each correlation is displayed (e.g. the correlation above is significant, *p<.05 **p <.01).

### MODEL SUMMARY

**Table 2:** Reported entrepreneur's education, industry experience and start-up experience regressed on sales and employment growth (Model 1). Entrepreneur's culture and business environment moderating culture, industry experience, and start-up experience regressed on sales and employment growth (Model 2).

| | Model 1 | | | | Model 2 | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales growth | | Employment growth | | Sales growth | | Employment growth | |
| Variable | β | SE | β | SE | β | SE | β | SE |
| Entrepreneur's education | .156* | .126 | .146* | .169 | | | | |
| Industry experience | .187* | -.003 | .176** | .192 | | | | |
| Start-up experience | .442* | .033 | .416* | .017 | | | | |
| HC × Culture | | | | | .005* | .061 | .005* | .132 |
| HC × Environment | | | | | .005* | -.008 | .004* | .120 |
| $R^2$ | .015* | | .080** | | .003 | | .055** | |

Standardized regression coefficients displayed.

## THE RESULTS

The table 2 describes the overall model (so it tells us whether the model is successful in predicting the outcome). Using hierarchical method each set of summary statistics is repeated for each stage in the hierarchy. In the model summary there are 3 independent variables and two moderating variables. The model presents the five predictors (inadequate education, inadequate industry experience and start-up experience and moderating factors; culture and environment). It also provides us with some very important information about the models: the values of $R^2$.

The model describes what the dependent variables (sales growth and employment growth) as the outcome were and what the predictors were in the analysis. In the $R^2$, gives us a value which is a measure of how much of the variability in the outcome is accounted for by the predictors. For the first model $R^2$ value is .015, which means that independent variables accounts for 1.5% of the variation in sales growth ($p<.05$). While the second $R^2$ value is .080 which means the predictors accounts for 8% of the variations in employment growth ($p<.05$). The next step in the analysis is the moderating factors (business environment and entrepreneur's culture) account for additional .03% of the variance in sales growth and 5.5% variance in employment growth, as displayed in column 5 of Table 2 ($p<.01$). Inadequate human capital have a statistically significant positive relationship with venture performance; i.e. lower venture performance is associated with inadequate human capital ($p<.01$), moderated by entrepreneur's culture and business environment ($p<.01$). This epistle finding provides support for H1, H2, and H3.

However, the moderating factors as well (in model 2), the $R^2$ value is .003 for sales growth was .03% variance and .055 which is 5.5% of the variance in employment growth both was also significant ($p<.01$). This explained that the moderating factors influence the interaction between the predictors and the outcome. The nature of the interaction indicates that the influence of the moderating factors was higher in employment growth than sales growth. Inadequate entrepreneur's education moderated by business environment and/or culture has a significant effect on sales and employment growth.

Inadequate entrepreneur's industry experience moderated by entrepreneur's culture and/or business environment has a significant effect on employment and sales growth. Inadequate entrepreneur's start-up experience moderated by entrepreneur's culture and/or business environment has a significant effect on employment and sales growth. The study observes that business environment and entrepreneur's culture increases the effect of inadequate human capital on venture performance. We also found that inadequate entrepreneur's human capital moderated by culture and environment thwart venture performance. This indicates that the entrepreneur's educational background, industry experience and start-up experience has a significant impact on his/her business success or failure.

## DISCUSSION

Theoretically, we expected both independent effects and interaction effects among the variables. Moreover, scant attention has been given to the interplays between the variables. With the exception of [54] and [55] integrative models of venture success are notably missing. The current study demonstrates that the inadequate human capital of the owner-managers outline negatively significant effect in the performance of their firms. Hence, entrepreneur who does not possess the potent, synergistic combination of education with industry specific experience have no competencies and capabilities to manifest better results. This research demonstrated the empirical significant effect of the owner-manager's inadequate human capital on venture performance.

It was observe by [56] that both education and industry managerial experience were found to positively impact on firm performance, with firm performance more highly correlated to industry managerial experience than to level of education.

## CONCLUSION

In conclusion, it seems logical that the human capital needed to enhance venture performance would be more likely to arise from years of experience in the same industry than from level of education, the former is more directly and specifically relevant to the capabilities required while the latter is more general. However, as this study demonstrates, a focus on inadequate education, industry experience and start-up experience does play a negative role on venture performance.

## RECOMMENDATIONS

We recommend that the government, its agencies and non-governmental organizations should embark on a massive awareness campaign among small business entrepreneurs on the effect of culture on venture performance. In addition, they should make sure a favorable environment of business should be created for small business to perform effectively. Also to sensitize the small business owner-manager on the importance of education in business success.

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