

# A Closer Look at the Relationship Between the Social Capital of Low-Wealth Entrepreneurs and Access to Financial Resources



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# Key Research Questions

-  What are the effects of social capital on important firm outcomes, primarily access to formal financial resources?
-  What composition of social resources yields social capital for entrepreneurs? Does the composition vary by low-wealth entrepreneurs?
-  Do social resources influence whether or not a firm pursues access to financial resources?

# The Concept of Social Capital & a Social Resources Perspective

- 🌐 What is social capital? The Good, the Bad and the Ugly
- 🌐 What does a social resource perspective contribute?
- 🌐 How do we identify it in our communities?
  - 🌐 Individual Levels
  - 🌐 Group Levels
  - 🌐 Community Levels
- 🌐 What might it suggest about access to financial resources for low-wealth entrepreneurs?

# A Closer Look... The Approach

## Panel Survey Entrepreneurial Dynamics (PSED) II

- n=1,214, representative sample (31,485 adults)

### Descriptives:

- Predominantly male (2/3)
- 3 out of 4 are between 25 & 54
- 7 in 10 are White

- Relationship between various sources of social capital and proportion of financial resources

- Dependent variable Model 1: Proportion of Formal Sources, Start Up

- Dependent variable Model 2: Proportion of Formal Sources, Business Development

- Generalized Linear Models, binomial link

- Sheaf coefficients (Buis 2009; Heise 1972; Kasarda & Irwin 1991)

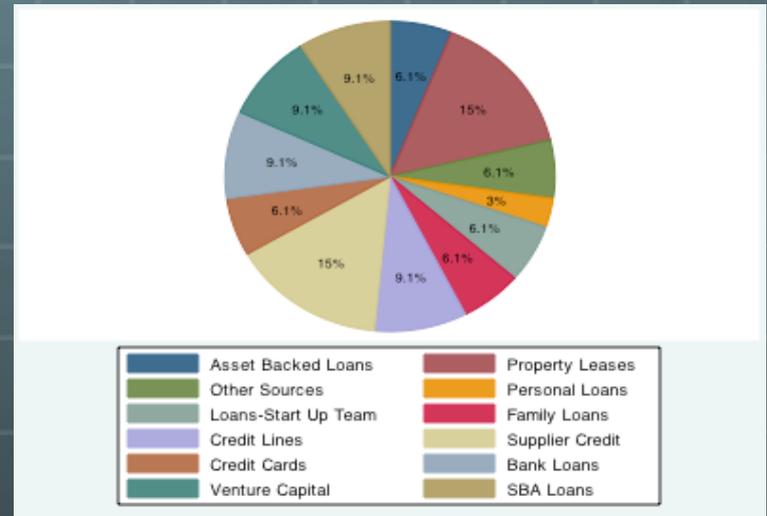
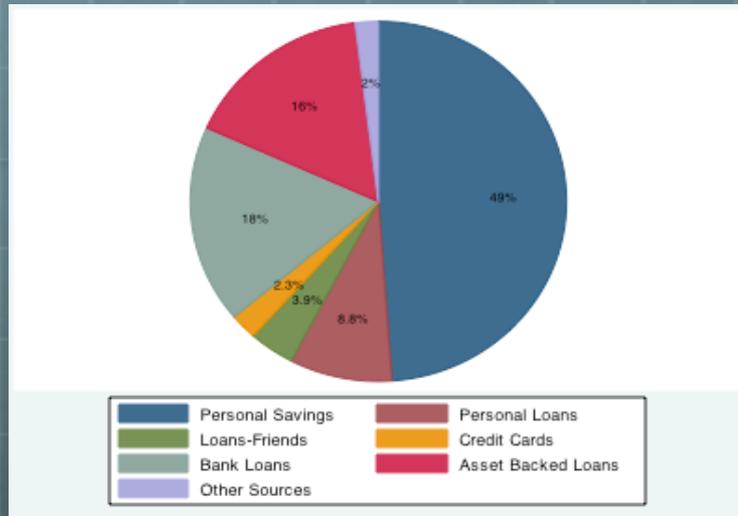
- Controls: Firm , Location and Individual characteristics

- Relative Definition of low-wealth (<\$105,000)

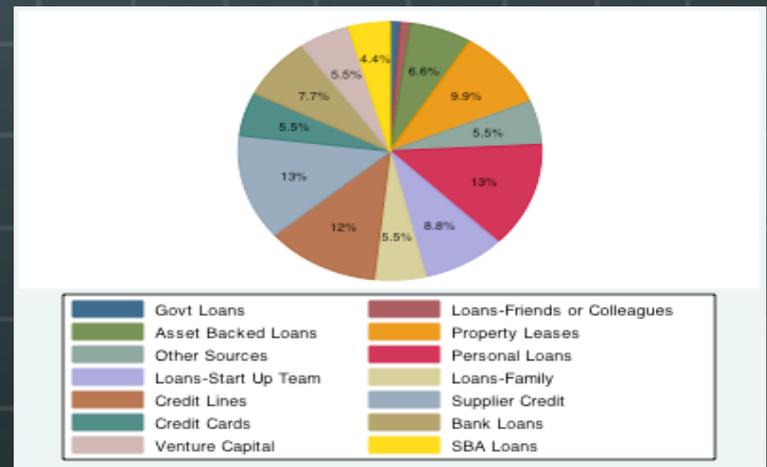
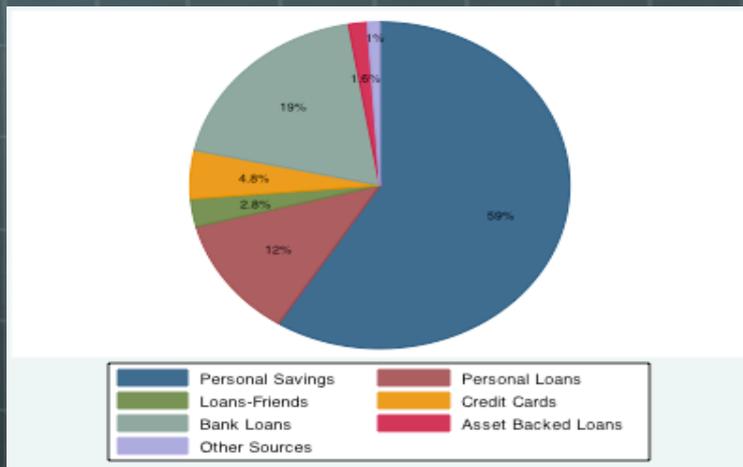
# Key Constructs of Interest

Latent Variables	Observed Variables	
Individual Resources	Education Prestige Experience	
Group Resources	<i>Helpers:</i> Education Prestige Experience	<i>Other Owners:</i> Education Prestige Experience
Community Level Resources	Cognitive (Norms): Perceptions of an environment favorable to entrepreneurial action and risk taking	Structural (Organizations): Perceptions of community-based groups, banks and state and local government

# Financial Resources Utilized By Entrepreneurs

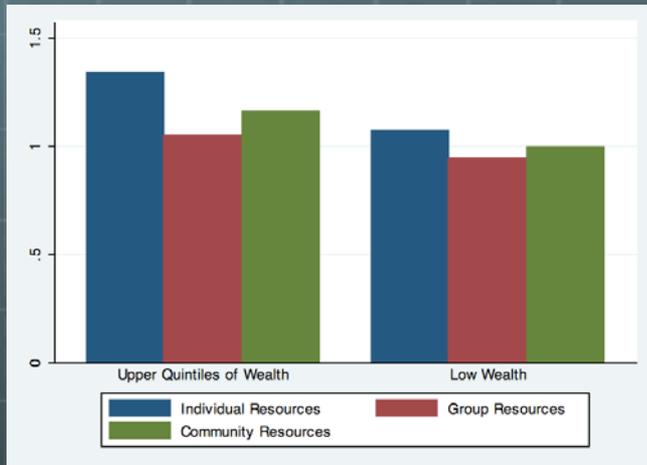


All Enterprises

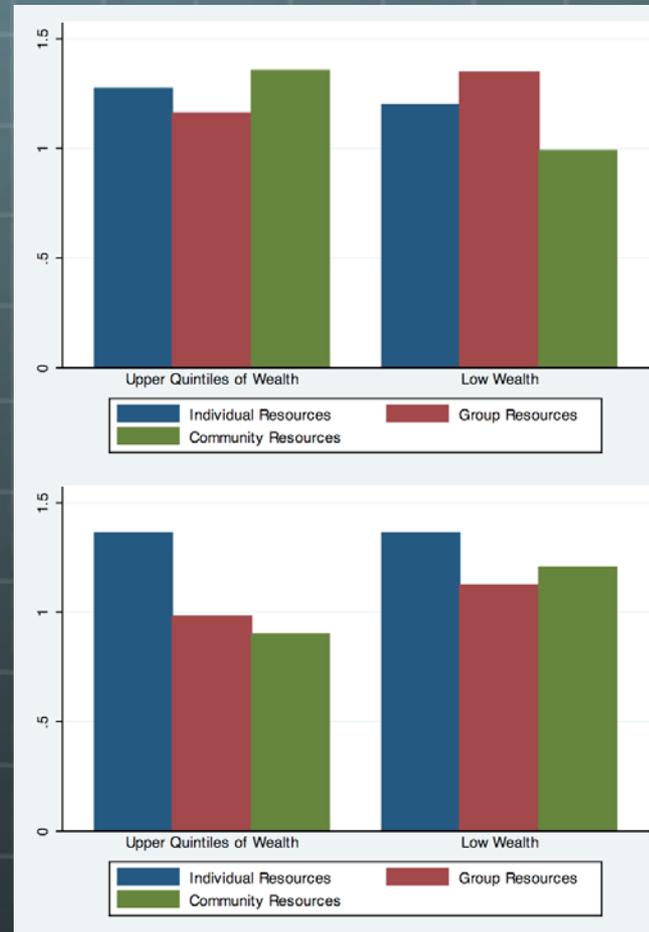


Low-Wealth Only

# Social Resources and Financial Resources



Overall sample, regardless of whether or not financial resources are pursued at any phase



Start Up

Business Development

Pursuing Formal Financial Resources

# Social Resources and Financial Resources

## Dependent Variable: Proportion of Formal Financial Resources. Start Up

Latent Construct	Utilizing Start Up Funds	
	Overall	Low Wealth
Community Resources	.284a	.502a
Group Resources	.271a	.460a
Individual Resources	.414a	.582a
Model Statistics	N=867	N=378
Deviance	436.950	148.964
Pearson	539.209	212.087
AIC	.682	.576
BIC	-5374.219	-2046.947

## Dependent Variable: Proportion of Formal Financial Resources, Business Development

Latent Construct	Utilizing Additional Resources	
	Overall	Low Wealth
Community Resources	.818a	3.593a
Group Resources	.542a	5.141a
Individual Resources	.258	2.859a
Model Statistics	N=193	N=57
Deviance	113.782	11.360
Pearson	96.650	22.825
AIC	1.000	.798
BIC	-859.816	-186.75

a = All coefficients are significant at the .01 level.

Note: All models were estimated using robust and cluster robust errors; cluster robust provided the best fit as measured by the linktest and as a result are presented here.

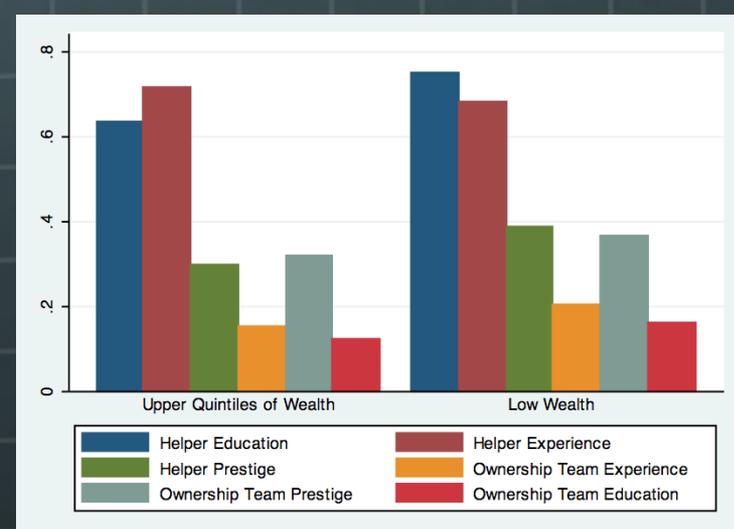
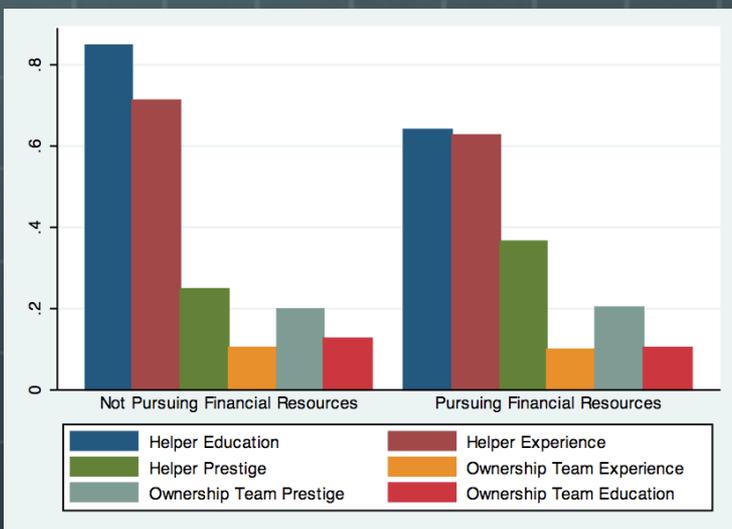
# 'Initial Stock' of Social Resources



Start Up

Initial Differences

Those Pursuing Formal Resources...



Business Development

# Social Resources and the Pursuit of Financial Resources

<b>Dependent Variable: (1 y) Pursuing Start Up Financial Resources</b>	
<i>Latent Construct</i>	
Community Resources	.555*
Group Resources	.603*
Individual Resources	.207
<i>Model Statistics</i>	
Pseudo R2	.133
Log pseudolikelihood	-208.16
N	471
<b>Dependent Variable: (1 y) Pursuing Additional Financial Resources</b>	
<i>Latent Construct</i>	
Community Resources	.646*
Group Resources	.598*
Individual Resources	.573*
<i>Model Statistics</i>	
Pseudo R2	.20
Log pseudolikelihood	-132.628
N	471

# Conclusions

## KEY RELATIONSHIPS

- Individual* resources
- Group* resources
- Group and Community*



- Formal financial resources at start-up
- Formal financial resources for business development
- Pursuit of financial resources

## Implications of a Social Capital Framework

Need to consider the potential of policies and programs to foster connections between entrepreneurs and social resources present in a place

In communities composed of low-wealth entrepreneurs with similar stocks of social resources, targeted efforts to improve the social resource flows to these groups may be an important consideration.