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Overcoming Institutional Voids: The Impact of Family Support on Youth Entrepreneurship in Emerging Markets

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Research Motivation

- The absence of specialized intermediaries, regulatory systems and contract-enforcing mechanisms, more commonly known as **institutional voids**, plagues emerging markets [Khanna and Palepu, 1997]

- There is a need for a compensatory social structure to spur market formation and operation [Khanna and Palepu, 1997; Greif, 2006]

- Serious dilemma for *entrepreneurs starting new ventures in these contexts*

Research Questions

- Does **the family** play a significant role in university students' nascent entrepreneurial activity? Is the strength of the relationship contingent on the country's level of **institutional development**?

- *Findings suggest:*
  - entrepreneurs who engage in more start-up activities are more likely to end up with a viable new venture [Carter et al., 1996; Brush et al., 2008]
  - family helps nascent entrepreneurs to get access to resources [Van Auken and Neeley, 1996; Steier, 2007]
  - the benefits of family involvement are magnified under weak institutional regimes [Luo and Chung, 2013]

Family & Institutional Embeddedness Perspectives

- The family embeddedness of entrepreneurship perspective [Aldrich and Cliff, 2003; Granovetter, 1985] suggests that entrepreneurs and their families are not separate entities, and that family support in the form of family resources, financial and social, can be instrumental in the start-up of the new venture

- Entrepreneurial activity is embedded in an institutional context
- Families are a critical source of start-up capital in all institutional environments, but they become essential funding sources in countries with underdeveloped capital markets
- The family reputation, connections, and referrals are indispensable in bridging the "voids" in the formal institutional infrastructure [Khavul, Bruton, and Wood, 2009]

The Role of Family Support

- University students are locked out of most of the traditional channels for getting early stage financial capital [Ozgen and Minsky, 2013]. They typically acquire early stage funding from friends and family [Van Auken and Neeley, 1996]

- Family social capital may have a strong influence on the venture creation process [Aldrich and Cliff, 2003; Renzulli *et al,* 2000; Steier, 2007]

H1a: *The greater the family support, in the form of financial capital, the greater the scope of start-up activities undertaken by the young nascent entrepreneur.*

H1b: *The greater the family support, in the form of social capital, the greater the scope of start-up activities undertaken by the young nascent entrepreneurs.*

The Role of Family Support & Institutional Environment

- The lack of formal market-based institutions can increase the role of informal family financial and social ties and serve as a substitute for market intermediaries in emerging economies by providing quality and timely information and by facilitating transactions [Chang and Choi, 1988; Khanna and Palepu, 1997; Peng, 2003]

H2a: *The weaker the country's level of institutional development, the stronger the effect of family financial capital on the scope of start-up activities undertaken by the young nascent entrepreneur.*

H2b: *The weaker the country's level of institutional development, the stronger the effect of family social capital on the scope of start-up activities undertaken by the young nascent entrepreneur*

Method

Sample & descriptive statistics

- Data from the 2011 Global University Entrepreneurial Spirit Students' Survey (GUESSS), a biannual online survey of students
- 31,429 students (nascent entrepreneurs) from 20 countries: *11 developed & 9 emerging economies*
- Students were on average 24 years old, 47% of them were female, 54% were from entrepreneurial families

Statistical procedure

- *IVs:* financial capital (3 items, factor scores), social capital (2 items, factor scores), international property rights index (IPRI)
- *DV* is a count of start-up activities
- *Hierarchical Poisson Regression (STATA)*

Our Results are Mixed

- Financial capital was significant, but negatively related to start-up activities (H1a – rejected)
  - *The higher the family support in the form of financial capital, the lower the scope of start-up activities*
- Social capital was significant and positively related to start-up activities (H1b – supported)
  - *The higher the family support in the form of social capital, the higher the scope of start-up activities*
- Ambivalent support for hypothesis H2a
  - *The effect of family financial support was indeed stronger at lower levels of institutional development (as H2a predicted), but in a direction opposite to H1a*
- The interaction between family social capital and the IPRI variable was negative and statistically significant, diminishing the positive effect of family capital on the start-up activities of students (H2b – supported)
  - *The effect of family social capital was even stronger at lower levels of institutional development*

The Role of Family Support

Negative impact of family financial capital

- Possible that too much financial support may have an adverse effect on the scope of entrepreneurial activities

- Data artifact – our DV is a count of start-up activities and one of those activities is *"looking for financing"*. If the family provides too much financing, then the entrepreneur is less likely to look for money elsewhere

Positive impact of family social capital

- Family social capital, in the form of social contacts and introduction into social networks, has a consistent positive effect on the scope of start-up activities
  - Strong family ties are both a source of internal or **"bonding"** social capital and a source of external or **"bridging"** social capital

The Role of Family Support & Institutional Environment

- Family financial capital has an even more pronounced negative effect on the scope of nascent activities in the context of emerging economies
  - A substitution mechanism may be in place
  - It also points to a certain “cocooning” effect

- The effect of family social capital on the scope of nascent entrepreneurs’ start-up activity is stronger in the context of weak institutional environments such as those found in emerging economies
  - Personal referrals and personal trust alleviate the threat of opportunistic behavior and reduce transaction costs

Limitations, Future Research Directions & Implications

- Limitations and future research directions
  - The implications of different family types on the scope and outcomes of start-up initiatives
  - Focus on panel dataset to infer causal relationships

- Implications
  - for policy makers: to pay closer attention to the role of the family (e.g. programs and tax incentives for enhanced family support of youth entrepreneurs' start-up activities may be instrumental in directly and indirectly stimulating youth entrepreneurship)
  - for aspiring young entrepreneurs: to carefully calibrate the benefits and costs of soliciting family support in the process of their new venture creation

Conclusions

- **Families** have the potential to supply young nascent entrepreneurs with unique forms of capital that enable them to effectively establish firms

- The effect of family embeddedness is multifaceted and strongly attenuated by **country context**

Our study starts an interesting conversation on the role of family for youth entrepreneurship.
It is our hope that other researchers will join in and enrich this conversation.

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Thank you for your attention!
Questions?