Market Intelligence Generation, Social Capital and Firm Creation: A Focus on Nascent Entrepreneurs

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Abstract

Prior research on entrepreneurship has identified social, demographic and economic variables that contribute to an individual propensity to engage in entrepreneurial activities. These efforts led to the need for a comprehensive understanding of the firm creation process beyond socio-economic and demographic variables. Consistent with that recommendation, marketing is one area that has been argued to offer additional insight into entrepreneurship and more specifically the firm creation process. This paper proposes to study the relationship between Market Orientation (MO) and Entrepreneurial Firm Creation (FC) of Nascent Entrepreneurs. Extant research on Market Orientation (MO) and its use by Nascent Entrepreneurs (NE) have largely focused on managers in existing firms and individuals who are employees of other businesses. This paper focuses on the individual who takes that fateful step to create a firm and will seek to (a) determine whether individual nascent entrepreneurs who engage in market intelligence gathering are more likely to complete the firm creation process by starting a business, (b) assess the role of social capital in the relationship between market intelligence gathering and firm creation. This will add to the understanding of why some nascent entrepreneurs succeed at creating new firms and others do not.

Keywords: Market Intelligence, Nascent Entrepreneur, Entrepreneurship, Firm Creation, Market Orientation

Prior research on entrepreneurship has identified social, demographic and economic variables that contribute to an individual propensity to engage in entrepreneurial activities (Fairlie, 2005).

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The results of these efforts led to the need for a comprehensive understanding of the firm creation process. Gartner (1998) has encouraged additional research beyond socio-economic and demographic variables. Consistent with this recommendation, marketing is one area that has been argued to offer additional insight into entrepreneurship, and more specifically, the firm creation process (Gruber, 2004). There are several areas where marketing and entrepreneurship interface (Hills & LaForge, 1992), including venture idea identification, innovation, exploitation of opportunity, business plan development, market feasibility study, and marketing strategy. All of these activities require the ability to gather market intelligence—a major requirement for the process of firm creation.

In this paper, we propose to study the relationship between Market Orientation (MO) and Entrepreneurial Firm Creation (FC) of Nascent Entrepreneurs. Extant research on Market Orientation (MO), and how Nascent Entrepreneurs (NE) use it, has been focused largely on managers in existing firms. In effect, the literature has been predominantly, if not entirely, focused on individuals who are employees of other businesses. This paper goes beyond this point, and examines the individuals who enter business as an independent agent. The focus is not on successful enterprise, rather, we focus on the individual who takes that fateful step to create a firm. Specifically, the study seeks to: (a) determine whether individual nascent entrepreneurs, who engage in market intelligence gathering, are more likely to complete the firm creation process by starting a business; and (b) assess the role of social capital in the relationship between market intelligence gathering and firm creation.

While the primary aim of this study is to broaden the discussion of new firm creation, to include market orientation behaviors, specifically market intelligence gathering, it will add to the understanding of the overarching research question of "why some nascent entrepreneurs succeed at creating new firms and others do not?" Consistent with Schlosser & McNaughton, (2007), the study will also extend the concept of market orientation, as a level construct, to the individual level. The study is limited to nascent entrepreneurs involved in the creation of independent and autonomous firms, not branches or subsidiaries of existing, or established firms.

As stated earlier, Market Orientation (MO) includes among others, venture idea identification, and market feasibility study. All the components of MO require the Nascent Entrepreneur (NE) to gather Market Intelligence, which has been referred to in the literature as Market Intelligence Gathering (MIG).

While MO has been recognized to affect positively Firm Creation (FC), Jaworski and Kholi (1993), among others, further suggest an entrepreneur would make decisions as a response to market intelligence that has been collected and shared, or critically discussed with others, through formal and informal means. Thus, in the pre-startup stages, or gestation period, the social network of the nascent entrepreneur would seem to provide the structure for which the market intelligence is exchanged, sorted, and weighed for appropriate usefulness. Researchers have suggested individuals engaged in the creation of new firms within a network of social relationships, and his or her accessibility to these networks, is a significant predictive factor in FC (Aldrich & Cliff, 2003). This social network may be considered the Social Capital (SC) of the NE. Therefore, along with MIG, the SC of the NE is a critical factor in FC.

Bourdieu (2001) posited SC is the sum of the resources—actual or virtual—that is accrued by an individual or group. At the individual level, the personal network of an entrepreneur allows access to resources that internally are not possessed (Burt, 1995). Strong social interactions and ties are a beneficial and productive resource for entrepreneurs in terms of exchanging information, recognizing business opportunities; and sharing and exchanging resources. The success of the social interaction efforts of an individual with others in the network suggests the existence of a high level of SC, built on a favorable reputation, relevant previous experience, and direct personal contact. It assists the entrepreneur to gain access to venture capitalists, key competitive information sources, potential customers, and others (Smith-Doerr et al., 2005) and thus impacts the FC.

Against the background of this synopsis, this study posits the following hypotheses:

H1: the greater the MIG of the NE, the more likely FC will occur.

Figure 1: MIG and FC Relationship Model (H1)
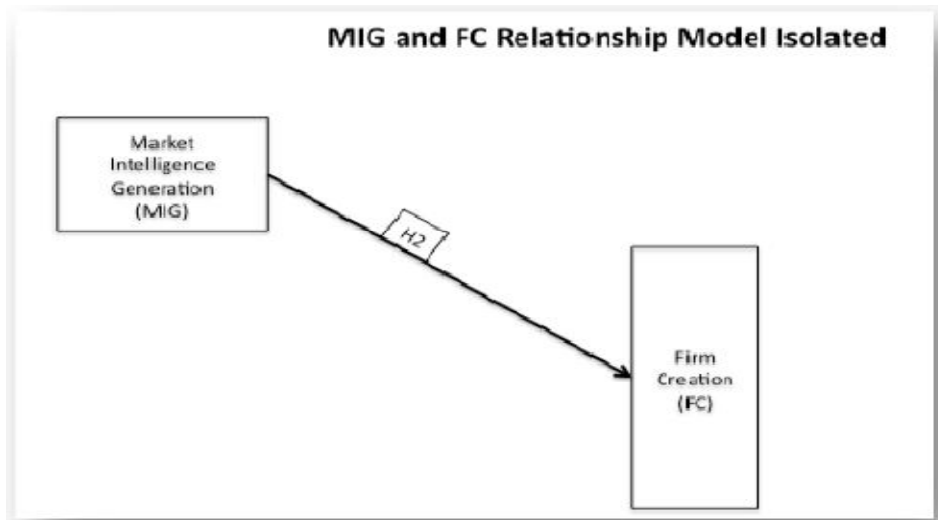
It is equally posited that the SC of the NE moderates the relationship between MIG and FC. Moreover, the SC factor operates through various components: Structural Capital (STC), Relational Capital (RTC), and Cognitive Capital (CGC). Accordingly, the following relationships were tested:

H2: the STC of the NE moderates the relationship between MIG and FC;

Figure 2: STC and MIG Moderation Model (H2)
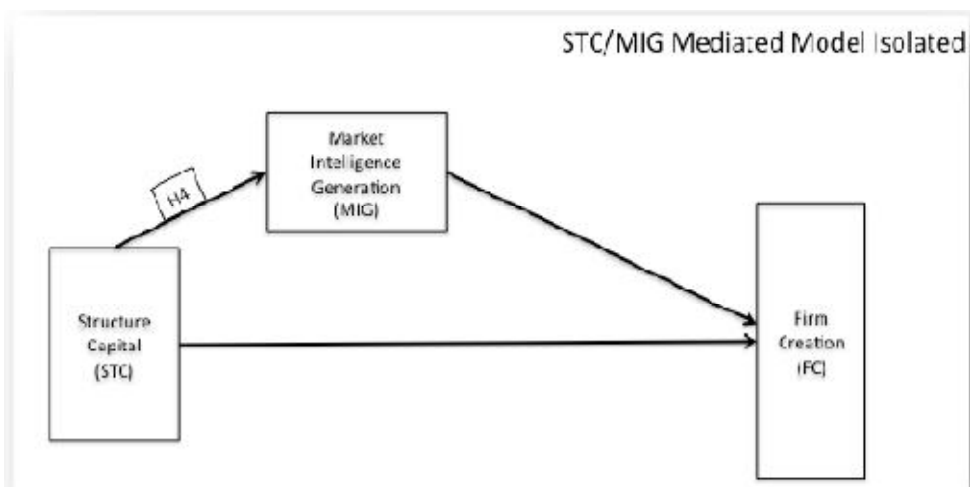
H3: the RTC of the NE moderates the relationship between MIG and FC; and
H4: the CGC of the NE moderates the relationship between MIG and FC.

Methodology

This study is empirical, and uses a sample of nascent entrepreneurs drawn from the Panel Study of Entrepreneurial Dynamics (PSED) II dataset, a national study conducted in the United States. The PSED research project began in 1996, and has been administered twice over two consecutive four-year periods. The first administration of the project—PSED I—took place in 1998, and the second administration—PSED II—began in 2005 (Reynolds, 2000, 2007). The project is the first and only full-scale study of its kind. The PSED projects have allowed researchers to take a closer look at the new FC process, from conception through firm birth and growth. The project focuses specifically on nascent entrepreneurs in the early stages of the FC process, and their actions and behaviors during the gestation or exploitation phases of the process.

The PSED II data set screened 31,845 individuals, and located 1,214 nascent entrepreneurs between the ages of 18 and 74. The identified study sample of 1,214 nascent entrepreneurs met the same selection criteria used in PSED I, i.e., 1) they considered themselves as involved in the FC process, 2) they have engaged in some startup activity in the past 12 months, 3) they expected to own all or part of the new firm, and 4) the initiative had not progressed to the point it may be considered an operating business.

The PSED II includes a range of question items measured at the individual level, which allowed for the assessment of the independent, dependent, and control variables of this study, i.e., MIG, EO, SC, and FC. All the variables and their relevant measures are discussed later in this article.

Three hundred and sixty-eight (368) of the respondents, who had actually started their new businesses, were dropped. Further, thirty-seven (37) also were dropped due to missing data, leaving a final study sample of 809 nascent entrepreneurs trying to start a business for themselves.

The Dependent Variable (FC) is based on Newbert (2005). Specifically, FC is "the process that takes place between the intention to start and making the first sales." Sales have been considered as the "optimum choice" for the birth of a new firm (Diochon et al., 2007). Thus, the study considered the achievement of sales or revenue as an initial indicator of FC. Based on the responses of the study sample of 809 nascent entrepreneurs to the above questions in the dataset, a total of 522 (65%) were identified as having created a firm during the four years of the study.

The Independent Variable (MIG) is defined based on a review of the extant market orientation literature, and particularly in consideration of the multidimensional scale developed by Kohli and Jaworski (1993), which included a scale for the measurement of intelligence generation. The PSED II questionnaire was explored to identify seven (7) questions that corresponded to MIG of the nascent entrepreneur, such as: "Have you already begun preparation of a business plan for this new business, (will you prepare one in the future), or (is/was) a business plan not relevant for this new business?"; and "Has this new business become a member of a trade or industry association, will this new business become a member of a trade or industry association in the future, or is this not relevant to this new business?"

A review of the literature isolated only two (2) studies that specifically addressed SC and the associated dimensions of structural, relational, and cognitive capital (CGC) in the FC process (Liao et al., 2008 and Liao, Welsch, & Tan, 2005b). Guided by the scales developed in the aforementioned two studies, a review of the PSED II questionnaire led to the identification of an 11-item scale, which was subjected to confirmatory factor analysis. The items selected included questions such as: "Many of my family and kin have started new firms?"; and "The social norms and culture of the community where you live are highly supportive of success achieved through one's own personal efforts?" to measure STC and CGC, respectively.

Scale Validity and Reliability

Using Churchill's (1979) measure development process, the proposed scales were assessed for reliability and validity with the data collected from the participants in the PSED II sample population. With consideration to the literature and the opinions of practitioners and academics, items located within the PSED II questionnaire were identified, and are believed to measure each of the constructs and their associated components. Factor analysis and scale reliability analysis were undertaken to validate each of the three proposed scales.

Cronbach's Alphas were computed to check the reliability of the scales and associated sub-scales. While the complete scales for MIG, EO, and SC provided sufficient reliability scores for use in the study, one sub-scale of social capital was below acceptable reliability levels.

Market Intelligence Gathering (MIG)

A factor analysis was conducted on the MIG scale, and all items loaded on one factor. A test of the scale reliability did resulted in a Cronbach's alpha of .675. While it is both recommended and desirable that the Cronbach's alpha is at least .70 (Nunnally and Bernstein 1994), under exploratory conditions of early stage research a .60 is acceptable (Hair, Black et al. 2006). The results are shown in table 1.

Table 1: Reliability Statistics for MIG

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.675	.674	7

Social Capital (SC)

Given the multidimensionality of the proposed social capital scale, a factor analysis was conducted to identify potential components and loadings of proposed items. The factor analysis yielded three extracted components and the varimax rotation loaded items on the specific components. A review of the result showed that the 6 items of the cognitive capital subscale loaded high on the first extracted component; the 3 items of the relational capital subscale load high on the second extracted component; and the 2 items of the structural capital subscale loaded high on the third extracted components.

Reliability tests were conducted on each of the subscales to determine the stability and internal consistency of the items used to measure the constructs. The 2 items identified to measure the *structural capital* produced an unacceptable Chronbach's alpha of .481.

A Cronbach alpha of .659 for the *relational capital* subscale meets acceptable levels based on the exploratory nature of the study (Hair, Black et al. 2006). The Chronbach's alpha of .853 for the *cognitive capital* is well above acceptable levels. The results of the reliability tests for structural capital, relational capital and cognitive capital are provided in tables 2, 3 and 4 respectively.

Table 2: Reliability Statistics for STC

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.481	.482	2

Table 3: Reliability Statistics for RLC Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.659	.660	3

Table 4: Reliability Statistics for CGC

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.853	.854	6

Combined Items from the MIG, Individual OE and SC Scales

A factor analysis was conducted on the combined total of 24 items use to measure the MIG, Individual EO and SC constructs and to ensure that the items actually loaded on the appropriate components used to measure the intended constructs. Seven components were extracted using a varimax rotation with one item loading at .547, just below the minimum of .55 suggested by Hair et al. (2006).

Control Variables

Research shows that historically men start more businesses than women (Reynolds et al., 2004 and van Gelderen, Thurik, & Bosma, 2006). Thus, gender may play a role in FC. Ethnic and racial backgrounds have been shown to have an impact on the propensity to become self-employed (Delmar et al., 2000b). It also has been found that for nearly 80 years, whites have been three (3) times for more likely to be self-employed than blacks (Bates, 2006; Fairlie, 1999; Fairlie, 2004). Thus, race may also impact FC. Studies have found that nascent entrepreneurship tends to decline with age (Reynolds et al., 2004), as younger individuals maybe more adventuresome. These three variables are the primary Control Variables explored in this study.

Previous research indicates human capital variables such as education, industry experience and prior knowledge; individual income and wealth; as well as social capital, provided by extended family, community-based, or organizational relationships, may influence the decision of a nascent entrepreneur to create a firm (Bates, 1990; Carter et al., 1996; Cooper, Woo, & Dunkelberg, 1989; Evans & Leighton, 1989; Reynolds, 1997; Shane, 2000; Wagner & Sternberg, 2004). It is argued, there is a tendency for entrepreneurs to be better educated (Hisrich, Langan-Fox, & Grant, 2007). Based on these findings, a secondary set of control variables consisting of human and social capital were added.

Modeling and Estimation

Consistent with previous nascent entrepreneurship studies (Delmar and Davidsson, 2000; Rotefoss and Kolvereid 2005; Liao and Gartner 2006; van Gelderen, Thurik et al. 2006; Lichtenstein, Carter et al. 2007), this study used logistic regression models to assess the effects of marketing intelligence generation (MIG), entrepreneurial orientation (EO), structural capital (STC), relational capital (RLC), and cognitive capital (CGC) at the individual level, on firm creation (FC).

Binary logistic regression predicts the "1" value of the dependent, using "0" as the reference. For this study, the simple logit model (Pampel 2000) of the form: **Log $(P/(1 - P) = b_0 + \Sigma b_i X_i + u_i$** is used. This model reduces to **Log $(P/(1 - P)) = b_0 + b_1 X_1 + b_2 X_2 + \ldots + B_k X_k + u_i$,** where **$b_0, b_1 \ldots b_k$** are parameters associated with the exogenous explanatory variables that affect the probability of the outcome variable. A positive parameter outcome indicates that the associated variable increases the probability of the dependent variable. A negative parameter indicates a decrease in the probability of the outcome variable. For this study, the key independent variables are MIG, EO, STC, RLC, and CGC. Other contributing controlled variables include: 1) Race, 2) Gender, 3) Age, 4) Education, 5) Prior Managerial Experience, 6) Industry Experience, 7) Self-Employed Family Member, 8) Prior Ownership, and 9) Experience Helping to Start a Business. The hypotheses were tested using a logistic regression model of the type: **$Fc = Fc (X_1, X_2 \ldots X_k) + u$** Fc is Firm Creation measured as a binary outcome, where $Fc = 1$ if a nascent entrepreneur creates a business; and $Fc = 0$ if the nascent entrepreneur does not start a business during the four longitudinal periods of the study. $X_1, X_2 \ldots X_k$ are a set of K exogenous explanatory variables, e.g., MIG, EO, STC, RLC, CGC, which account for firm creation. u is a logistically distributed error outcome. In turn, this model is applied to each hypothesis.

Summary of Results

The bi-variate analysis for MIG, and the relationship to FC was significant and positive (**Table 5**). However, the model was not properly fitted to the data. This did not negate its significance, but only suggest more than MIG is required to effectuate FC. In the final analysis, other constructs were required in aiding MIG in FC.

This seems logical, in that, MIG is more expansive in relationships with sources of information, such as family and friends, or other associates within communities or organizations. The significant finding provided support for: **H1:** the greater MIG for the NE, the more likely FC will occur.

Table 5: BiVariate Analysis of STC. RLC, CGC, MIG, EO Variables and FC YR 1

Hypothesis	N=809	BIVARIATE	B	SIG (WALD)	ODDS RATIO Exp(B)	HL	COX R2	NAGEL R2
H1	MIG	FCYR1	.064	.005*	1.066	.000	.010	.013
H2	STC	FCYR1	-.047	.221	.954	.445	.002	.003
H3	RLC	FCYR1	-.084	.006*	.919	.070	.010	.013
H4	CGC	FCYR1	-.016	.311	.985	.830	.001	.002

From the Table 5, it is clear three of the key variables—RLC, EO and MIG—have statistically significant, $p<.05$, relationships with FC. Both RLC and EO have a negative relationship with FC. Therefore, when RLC increases one unit, the odds that FC would occur decreases by a factor of .919; and when EO increases one unit, the odds FC would occur decreases by a factor of .975. MIG has a positive and significant relationship with FC, suggesting when MIG increases one unit, the odds FC would occur increases by a factor of 1.066; however, it does not have a non-significant HL goodness-of-fit static, suggesting the bivariate model is not well-fitted to the data.

When each of the social capital constructs, e.g., STC, RLC, and CGC interact with MIG, the results (TABLE 6) showed each aided MIG in FC. The role of each as a moderator for MIG seems very intuitive, in that, each of the constructs are rich in information and other resources.

Assessing the two-way interactions separately, MIG did interact significantly with each of the social capital construct, providing support for:

H2: the STC of the NE moderates the relationship between MIG and FC;
H3: the RLC of the NE moderates the relationship between MIG and FC; and
H4: the CGC of the NE moderates the relationship between MIG and FC.

Table 6: Bi-Variate Analysis of STC. RLC, CGC, MIG, EO Variables and FC YR 4

Hypothesis	N=809	BIVARIATE	B	SIG (WALD)	ODDS RATIO Exp(B)	HL	COX R2	NAGEL R2
H1	MIG	FCYR1-4	.074	.002*	1.076	.007	.012	.017
H2	STC	FCYR1-4	.010	.808	1.010	.837	.000	.000
H3	RLC	FCYR1-4	-.034	.287	.967	.130	.001	.002
H4	CGC	FCYR1-4	.022	.171	1.022	.971	.002	.003

The table reveals neither of the three dimensions of social (STC, RLC, CGC) capital have a direct relationship with FC, based on sales, when considering the combined 4 years of the study. MIG has a positive and significant relationship with FC, suggesting when MIG increases one unit, the odds FC will occur increases by a factor of 1.076; however, it does not have a non-significant HL goodness-of-fit statistic, which indicates the bivariate model does not fit the data well. EO has a negative, yet non-significant relationship.

However, when all the other hypothesized two-way interactions were entered into a multivariable analysis (TABLE 7), MIG interacted significantly and positively with Cognitive Capital (CGC), and the interactions of MIG with the other forms did not load in the final model. This could suggest that community support may be more important in getting started, at least when FC is based solely on sales.

Table 7: Direct Entry of STC, RLC, CGC, MIG, EO Variables and FC YR 1 Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1[a]	STC	-.019	.042	.201	1	.654	.981
	RLC	-.088	.036	6.120	1	.013	.916
	CGC	.003	.019	.026	1	.872	1.003
	EO	-.038	.013	8.477	1	.004	.963
	MIG	.081	.025	10.855	1	.001	1.084
	Constant	.835	.498	2.814	1	.093	2.304
a. Variable(s) entered on step 1: STC, RLC, CGC, EO, MIG.							

Model Summary

	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
	984.332[a]	.034	.045
	Chi-square	Df	Sig.
Hosmer and Lemeshow Test	3.997	8	.857

In Year 1, RLC, EO and MIG were statistically significant, $p<.05$, related to FC. While MIG is positively related to FC, both RL and EO have a negative relationship with FC. When RL increases one unit, the odds FC will occur decreases by a factor of .916, controlling for other variables in the model; when EO increases one unit, the odds FC will occur is decreased by a factor of .963, controlling for other variables in the model; and when MIG increases one unit, the odds FC will occur increases by a factor of 1.084, controlling for other variables in the model. The overall fit of the model has a HL non-significant HL goodness-of-fit, $p<.857$, indicating the model is well-fitted to the data.

Social Capital (SC)

As suspected, the STC, RLC, and CGC, the three dimensions of SC, were found to be significant, $p < .01$, and positively correlated (Table 8). However, none of the correlations are exceedingly high, e.g., .70 or greater. The highest correlation was .439 between RLC and CGC. While there is obvious overlapping of the three dimensions, they are clearly distinct constructs. Thus, they were individually assessed in their roles with FC.

Since we are discussing only MIG in this paper, it should be noted, all three dimensions of social capital, e.g. STC, RLC, and CGC, interacted significantly and positively with MIG, including the relationship of each dimension to FC. These significant findings reflect entrepreneurs are embedded in personal, professional, and community relationships (Granovetter, 1985, 2001). These relationships can have both positive and adverse effects. This study clearly demonstrates SC is important in FC, as it enhances the chances of FC.

Correlations

In effort to determine the degree of the relationship between the primary five variables included in the study, correlations values were computed and significance test were conducted (Cohen and Cohen 1983). The Pearson Product Moment Correlation (r) and significant test results for the key independent variables (e.g., STC, RLC, CGC, EO and MIG), along with descriptive statistics, are provided for in table 9.

Table 8: Correlation Matrix for STC, RLC, CGC, EO and MIG

Correlations Matrix of Key Variables		STC	RLC	CGC	EO	MIG
STC	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	798				
RLC	Pearson Correlation	.185[**]	1			
	Sig. (2-tailed)	.000				
	N	766	774			
CGC	Pearson Correlation	.282[**]	.439[**]	1		
	Sig. (2-tailed)	.000	.000			
	N	782	763	791		
EO	Pearson Correlation	.086[*]	-.016	.022	1	
	Sig. (2-tailed)	.015	.661	.532		
	N	794	771	787	804	

MIG	Pearson Correlation				.193[*]	1
		.038	-.048	.018	*	
	Sig. (2-tailed)	.299	.188	.610	.000	
	N	765	743	762	771	775
*. Correlation is significant at the .05 level (2-tailed), **. Correlation is significant at the 0.01 level (2-tailed).						

Table 9 Descriptive Statistics			
	Mean	**Std. Deviation**	**N**
STC	5.79	1.861	798
RLC	9.44	2.391	774
CGC	22.20	4.652	791
EO	16.43	6.035	804
MIG	8.22	3.156	775

(Note: Example for reporting correlations: Degrees of freedom (N-2) and the significance level= r(N-2)=.XX, p<.01)

The correlation table reveals there is a positive and significant correlation, at an alpha level of .01, between STC and RLC, r(764)=.185, p<.01; CGC and STC, r(780)=.282, p<.01; and between CGC and RLC, r(761)=.493, p<.01. Given these three variables are dimensions of the same construct—social capital—the significant relationships were expected.

Interestingly, EO and STC also has a positive and statistically significant correlation with an r(792) =.086, p<.05. This relationship may reflect that entrepreneurs generally tend to know other entrepreneurs; thus, a nascent entrepreneur with a stronger EO is more likely to know other entrepreneurs.

Control Variables

When all ten (10) Control Variables were simultaneously entered into a logistic regression, only race was statistically significant, with the odds of FC occurring being greatest for whites. This is consistent with other findings in the literature, e.g., (Bates, 1994, Bates, 2006, Fairlie, 2005, and Fairlie & Meyer, 2000).

While not statistically significant, males did have a positive relationship with FC, and were more likely than women to FC. This is consistent with the literature on gender and entrepreneurship. When it comes to age, those younger than 35 had a positive relationship with FC, while those between 35 and 65 had a negative relationship with FC. The literature suggests that entrepreneurs tend to be much younger.

Conclusions

The study provides very interesting results, indicating a difference between variables when consideration was given to the first year of the study, and the complete four-year period of the study. It also reveals the strength of relationships between variables also differed based on the time period of the study.

Based on the theoretical arguments and the empirical evidence found in this study, it appears RLC and MIG are significant to the process of new FC. The fact RLC and MIG are evident in both year 1, and year 4, is strong evidence the constructs offer some unique insights into the behaviors and activities of nascent entrepreneurs that impact their decision to actually start a firm. However, CGC also seems to play an important role when the entire four years of the study was considered. When it came to control variables, race was consistently significant.

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