

Mobilizing & Swapping Resources for Entrepreneurship

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Здравствуйте!

It's a pleasure to be here. I thank the Context Club and other sponsors for this invitation.

It's actually my third visit to St. Petersburg. I can vouch already that it's an elegant and beautiful city with much to interest a visitor.

my profession

I am a sociologist, not an economist.

This affects my approach.

high-rate vs. low-rate groups

For many years I have studied the entrepreneurship of immigrant and ethnic groups in the USA.

High-rate groups have rates of self-employment that are appreciably above-average.

average = 10% - 13%; high = 30% - 70%

How do they do it?

My objective is to understand what permits very high rates of self-employment among groups that display it.

What I offer now is a quick synopsis of the results of this empirical research, which I call “resource theory.”

Group A and Group B

Group A
cohesive

Group B
non-cohesive

1 -- 2

3

4

Who has the advantage?

- Entrepreneur 1 needs a hat and a coat, and has \$100. Entrepreneur 3 needs a hat and a coat, and has \$100.

E3 buys a hat for \$40 and a coat for \$60. Now E3 has a hat and a coat, but no money.

E1 buys a coat for \$60 and borrows a hat from E2. Now E1 has a hat, a coat, \$40, and an obligation to repay E2 with some comparable service.

An alternative currency?

Yes! The obligation to repay provides an alternative currency.

Entrepreneur 1 operates in 2 currencies: money and obligations; entrepreneur 3 operates in one currency, money.

Entrepreneur 1 is richer than entrepreneur 3!

Neo-classical theory

Consider the standard version of entrepreneurship as it was understood a generation ago.

Entrepreneurs innovate.

Why do they innovate? Answer: They are clever people.

Entrepreneurship is “a gift.”

more neo-classical

Needing a factor of production (land, labor, capital) entrepreneurs buy it with money in a market. Entrepreneurs buy/sell commodities.

If they need labor, they hire workers at the market price.

If they need capital, they borrow it at the market price.

If they need physical facilities, they rent or buy them at the market price.

Money: the only currency

Orthodox view

Entrepreneurs acquire what they need with money.

Money is the “only currency” that permits the acquisition of needed resources.

Everything resource is commoditized, has a price, and requires payment in money.

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Money = resources

The entrepreneur's access to money bounds her/his resources;

- no money, no resources
- little money, few resources
- much money, many resources

This view is incorrect.

What it ignores

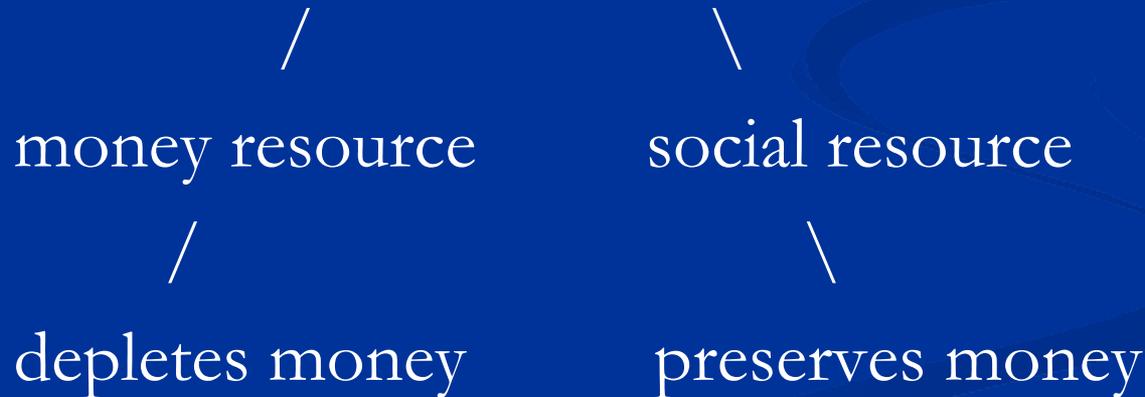
- The neo-classical view ignores social resources.

Social resources defined

Goods/Services others can provide an entrepreneur without money cost or at reduced money cost.

Cold head?

buy hat vs. borrow hat



Consider these 2 equations

1. Money resources = resources available

2. Money resources + social resources = resources available

Which resource set is greater? 1 or 2?

Question 1

“If they need labor, they hire workers at the market price.”

But:

What if entrepreneurs can obtain labor at less than the market price or, indeed, at no money cost?

This is possible; and it confers an advantage.

Question 2

“If they need capital, they borrow it at the market price.”

But what if entrepreneurs can obtain capital at less than the market cost or, indeed, without any money cost?

This is possible, and it confers an advantage.

Question 3

“If they need physical facilities, they rent or buy them at the market price.”

But, what if some entrepreneurs can obtain physical facilities (buildings, trucks, machines) at less than market prices or even for free?

This is possible, and it confers an advantage.

Alternative resource acquisition

So this lecture is about alternative ways of obtaining resources.

That is, ways entrepreneurs obtain resources at below-market prices or even without money cost.

Obtaining resources that way confers business advantage.

First, “obtaining” ideas

Ideas are not purchased.

Entrepreneurs often obtain clever ideas because they talk to clever people who understand business.

Talking to clever people will enable even dull entrepreneurs to have clever ideas.

Having clever friends in business is a *social resource*.

More ideas

Entrepreneurs who bridge to non-overlapping networks are enabled to see opportunities others miss.

Network – Bridge -- Network
A-B-C-D “Boris” E-F-G-H

Bridging

In the preceding illustration “Boris” bridges networks ABCD and DEFG.

Boris is in a position to see opportunities for exporting from ABCD to DEFG that others, equally clever, cannot see.

This advantage of Boris is a product of his bridging position, not his superior intelligence.

Obtaining labor

What if, needing labor, an entrepreneur decides to work longer hours himself/herself?

The entrepreneur thus obtains the needed labor “for nothing.”

How could that happen?

Possibly an immigrant entrepreneur comes from a country in which the work week is longer than in the USA.

So this entrepreneur considers 60 hours a normal work week whereas Americans think 40 hours is the normal work week.

Another scenario

Needing labor, the entrepreneur induces his/her family members to work in the business without drawing a wage.

Entrepreneurs then obtain family labor without paying market prices for it.

Family labor requires a normative orientation to unpaid labor that legitimizes it

Facilities acquisition

What if an entrepreneur, needing facilities, could obtain unpaid labor to build/make it?

This capability would provide an economic advantage over an entrepreneur who must buy his labor at the market price.



Amish barn raising

The Amish are a small religious sect that maintains very strong community ties.

That's an Amish barn raising. None of these workers earns a wage.

They work because it's a community obligation to help a neighbor.

Result

This Amish farmer builds a barn for only the cost of the lumber.

This confers an economic advantage relative to farmers who hire workers.

One can learn from this example without being Amish.

Cheap Credit

Small and medium enterprises (SME) have a hard time borrowing money from banks in the USA.

So, SMEs cannot borrow except at usurious prices.

Here money ceases to be a sovereign resource as neo-classical theory supposes it must be.

Alternative source

Suppose entrepreneur A is a member of a large community in which others consider it an obligation to lend a co-member start-up capital?

Suppose entrepreneur B depends exclusively on the bank for loans, but the bank will not lend.

Which will have an advantage in small/medium business in the USA, A or B?

Amish vs. Americans

Americans consider it unwise to mix business and kinship.

The Amish consider it an obligation to lend to kinsmen starting a business.

Who has a social resource advantage?

ROSCAs

A “rotating savings and credit association” (a ROSCA) is an informal association whose members make regular contributions to a fund that is lent to each member in rotation until all have taken.

ROSCAs in Los Angeles

Koreans and Chinese in Los Angeles have made effective use of ROSCAs in financing small business start-ups as well as in managing cash-flow problems of SMEs.

They do not depend on banks for loans; so they obtain loans competitors cannot.

Trust, a social resource

The key to successful ROSCA is a community whose members understand the institution and also have sufficient trust in one another that they can lend money without collateral in the secure expectation of being repaid.

This trust is a social resource that supports entrepreneurship.

Conclusions!

Money is not the only resource entrepreneurs bring to their business.

They bring social resources as well.

The social resources enable entrepreneurs to obtain factor inputs at less than the market price or without money cost.

Social resources are not “for sale” in markets.

Social Resources

- Bridges to ideas, resources
- access to unpaid labor, skills, information
- Access to credit

All the above can be accessed through social resources.

Average resources

But wait!

What if we say that “average entrepreneurs” have average social resources but they differ in respect to their financial resources?

This would be a step forward, because it recognizes social resources, but it exposes a problem.

Average entrepreneurs do not exist!

All entrepreneurs have some social resources and some financial resources;

None have average values on all social and economic resources.

No one is “an average person.”

Skip the next election!

Find the average person and let him/her decide who should be the next President!

This was a joke when I was a student.

The key

The key to successful entrepreneurship is to make the most of resources one has in abundance to obtain advantageously those that one lacks.

If money is abundant, use money to obtain needed inputs.

If social resources are abundant, use them to obtain without money cost what others must buy!

Social resources are valuable

Obtain social resources!

Use social *as well as* financial resources to obtain the most advantageous terms for the needed inputs.

Do not use scarce money to pay for a barn that your neighbors will build at no money cost.

Message

- “Obtain for nothing what others must buy or cannot obtain at all” by participating in wide social networks based on trust and reciprocity.

Quiz 1

B has lots of money; but little else. How can B obtain factor inputs for his business?

Answer

B can & must buy them. B uses his/her abundant money resource to obtain essential inputs B lacked.

This is the neo-classical view of entrepreneurs.

Quiz 2

C has abundant social resources thanks to many network memberships. But C has little financial capital. How can C acquire the needed factor inputs?

Answer

C can and will use his/her social network connections to obtain needed resources free or at reduced cost.

Dynamic

When C's business expands, and sales begin to pay C's bills, C's access to money capital will expand.

C is most likely to lack money capital during the start-up phase.

Neo-classical theory is least useful in explaining start-ups.

What's wrong with orthodoxy?

It wrongly assumes:

that money is the only resource;

that money is the only way to obtain factor inputs.

that entrepreneurs lack social resources.

that social resources cannot obtain factor inputs.

One size fits all?

It assumes that *one size fits all*.

Every entrepreneur has only money capital, and uses it to buy needed inputs.

That's not at all true. In fact, many entrepreneurs, especially during start-ups, must use social resources in order later to obtain money resources.

Additional Reading

Ivan Light and Edna Bonacich.

Immigrant Entrepreneurs: Koreans in Los Angeles. Los Angeles: University of California, 1988

Ivan Light and Steven Gold. *Ethnic Economies.* San Diego: Academic Press, 2000.

End

Thanks/Goodbye

Спасибо/до свидания

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