CHAPTER 2

THEORETICAL FOUNDATION

Being success surely the main intention of every entrepreneur, in which the key of success herein lies within themselves as the entrepreneurs. Therefore, this chapter of theoretical foundation discusses the theory of Human Capital as the main idea of this study, the elaborated definition of Entrepreneurial Success, and the relationship between Human Capital and the success of ventures owned by entrepreneurs. The selected theories are going to support the construction of theoretical framework which then yield the hypotheses.

2.1. Intellectual Capital

John Kenneth Galbraith has been prevalently recognized as the person who introduced the term Intellectual Capital in 1969 and described it as an intellectual contribution owned by individuals (Khalique, Bontis, & Nassir, 2015). However, Hormiga et al. (2010) claimed that the concept of Intellectual Capital was popularized by Tom Stewart in 1991 when his article regarding how Intellectual Capital is becoming America's most valuable assets was being published by the Fortune Magazine. As Intellectual Capital has previously defined by other researchers, the definition of Intellectual Capital concept actually varies depending on the different schools of thoughts and disciplines (Daou, Karuranga, & Su, 2014). However, many studies explained Intellectual Capital in the same concept but with different approaches (Khalique, Shaari, & Isa, 2011).

Adopting the definition proposed by Stewart in 1991, Hormiga et al (2010) defined. Intellectual Capital as all kinds of organization assets that could not be touched but could earn money for the organization. Meanwhile, Diez, Ochoa, Prieto, & Santidrian (2010) suggested a more elaborated definition which was the combination of human that included the knowledge, skills, experiences, and abilities of the people involved in the company; the organizational activities that included research and development activities, organizational routines, procedures, and systems of the company; and the external relationship of the company that included customers, suppliers, and any other partners. Another one definition was elaborated from a management perspective in which Intellectual Capital was considered as a resource or assets that were not recognized and disclosed in the balance sheet but could generate value and contribute to the company in ensuring competitive advantage (Daou et al., 2014).

Based on the existing reviews and published literature, there was still no single universally accepted and consistently applied definition regarding Intellectual Capital in the majority of studies. Nevertheless, according to Matricano (2016) all of these definitions that were originally adopted from several well-known and reputable studies in the early stage of the Intellectual Capital development had resulted in the agreement of the three main classifications of Intellectual Capital sub-components, which were commonly used in previous studies. They were Human Capital, Structural or Organizational Capital, and Customer or Relational capital (Hormiga et al., 2010; Daou et al., 2014; Khalique et al., 2015; Matricano, 2016). In addition, following several prior literatures this study focuses the attention in one sub-component of Intellectual Capital that is Human Capital as the most critical component and the driving force of the other components (Khalique et al., 2015).

2.1.1. Human Capital

Rompho and Siengthai (2012) claimed that the economists such as Becker, Mincer, and Schultz were the pioneers in Human Capital research. Schultz (1993) as cited in Marimuthu et al. (2009) indicated that the relationship of economics and Human Capital lied within the theory of macroeconomic development that became the root of Human Capital theory. Additionally, how economics related to Human Capital had also been implied earlier by Mincer (1958) and Becker (1964) as cited in Unger et al. (2011) on the explanation of the initial purpose of Human Capital theory development that was to estimate employees' income distribution from the employees' investments in Human Capital.

According to Becker (1964) as cited in Brixy and Hessels (2010), the theory of Human Capital encompasses the understanding of knowledge, skills, and experience investments that could enhance the intellectual abilities and subsequently develop a more productive or efficient behavior. From the organizational perspective, Schultz (1993) as cited in Marimuthu et al. (2009) described Human Capital as a significant component to improve employees as the firm assets in order to increase productivity and sustain competitive advantage. Thus, referring to these two definitions, this study incorporates the idea of Human Capital as the combination of the person's competence, attitude, and intellectual agility that were considered to be the major source of value addition for the organizations (Hormiga et al., 2010; Khalique et al., 2011; Matricano, 2016). The motive of choosing this definition is supported by the explanation that Competence, Attitude, and Intellectual Agility are the elements embodied in individuals which allow the person to think critically and systematically in the changing and uncertain environment which defines the conditions of business environment that are constantly changing (Hormiga et al., 2010).

Competence in Human Capital theory is understood as the values that are generated through education, knowledge and personal capabilities which include professional skills (Khalique et al., 2015). According to Mubarik, Govindaraju, & Devadason (2016), education refers to the knowledge that the person obtains through his or her experience in learning. However, Sonnentag (1998) as cited in Unger et al. (2011) asserted that experience and knowledge should not be equated because experience did not necessarily lead to increased knowledge. Besides, there is also particular meaning of knowledge in Human Capital which refers to tacit knowledge. Tacit knowledge can only be developed by humans instead of organizations (Kong, 2012) and is defined as procedural knowledge that is acquired more from daily social experiences than formal kind of education (Bol, Estep, Moers, & Peecher, 2016). Khan (2014) believed that the advancement of knowledge in general was the decisive factors of production to improve the quality of population, meaning that the acquired knowledge should increase the value of the person contribution to the organization and to the person productivity. Meanwhile, the skills in this case are related to the abilities of the person to perform professional related task based on specific job and industry, such as in running a business venture (Unger et al., 2011). Conversely, the ability itself is defined by Cohen, Naoum, & Vlismas (2014) as the skills that a person develops through experiences and practices. Indeed, abilities and skills are often used interchangeably and referred to the same characteristic in many studies (Nyberg, Moliterno, Junior, & Lepak, 2014). Therefore, education, knowledge, and skills are the right measurement of individual’s competency as these components allow the person to perform professional work and to meet the tasks at hand (Mubarik et al., 2016).

Attitude is defined as the individuals' perceptions of the personal desirability in performing certain actions (Bolton & Lane, 2012; Tshikovhi & Shambare, 2015). According to the Human Capital theory, Attitude is translated into behavioral patterns such as motivations, conduct and values, as well as propensity to learn (Rodrigues, Faria, Cranfield, & Morais, 2013). Attitude can also be inferred as other characteristics that refer to personality traits or attributes which result in the person's ability to perform a specific job or duties (Nyberg et al., 2014). In several Human Capital researches and literatures, Attitude and behavior are indeed often simultaneously indicated. Avey, Reichard, Luthans, and Mhatre (2011) asserted that a clear observable behavior was often manifested through Attitude and/or behavioral intentions although this was not always that way. In another perception, Çolakoğlu, and Gözükara (2016) explained that Attitude affected individuals' behaviors, and individuals' behaviors could be anticipated by Attitude. In line with Hudson (1993) as cited in Diez et al. (2010), Attitude is one of the contribution factors of Human Capital that is believed to reflect how a person behaves about life and business. By these perspectives, this study concludes that Attitude is one of the important Human Capital dimensions that can support the interpretation of how individuals behave in the entrepreneurial activity.

The last dimension is Intellectual Agility which in Human Capital theory is recognized as the ability to change practices and to think of solutions innovatively towards problems (Diez et al., 2010). Khalique, et al. (2015) suggested that Intellectual Agility was also comprised of the ability to adapt flexibly. Hence, this dimension measures the level of a person's flexibility towards an unforeseen event or something that can change dynamically. Basically, the components of Intellectual Agilty include whether a person is creative enough to reflect on problems in different ways which allows the person to think out of the box and whether the person tends to respond positively towards unpredictable changes (Calabrese, Costa, & Menichini, 2013). In addition, there is a distinction of Intellectual Agility from Competence and Attitude which is validated by the fact that Intellectual Agility is neither a skill nor a behavior, but a combination of both (Roos, Roos, Dragonetti, & Edvinsson, 1997). Therefore, Intellectual Agility is believed to become the complementary of the two previous dimensions: Competence and Attitude, which will represent the harmony of Human Capital dimensions as the independent variables of this study.

2.2. Entrepreneurial Success

2.2.1. Definition of Entrepreneur

The word ‘Entrepreneur’ is originally derived from the French word “entrepende” which means ‘to undertake’ (Tamizharasi & Panchanatham, 2010). Casson (1982) as cited in Tamizharasi and Panchanatham (2010) suggested that the term ‘undertaker’ was later translated into ‘Entrepreneur’ by Englishmen residing in France. Entrepreneur is simply defined as a person who owns and leads a business (Huan, 2016). However, several researchers have indicated definitions of entrepreneurship with different perspectives. While Filion (2011) said that Jean-Baptiste Say, an author who had the greatest impact on entrepreneurship field solely implied entrepreneur as the main agent that build the economy, Thurik and Wennekers (1999) as cited in Huan (2016), was likely to define entrepreneur from its function in a venture in which a person who supplies financial capital, innovates, allocates resources, and makes decision. Referred to the explanation by the Economic Cooperation and Development, Kamitewoko (2013) described entrepreneur as a person who owned the characteristics of seeking opportunities, taking risks beyond security, and having tenacity to realize an idea into reality. In line with Acs et al.

(2018), this study infers that entrepreneur is an innovative-minded person who is able to bring that innovativeness into the market. An entrepreneur is not supposed to just replicate what others have done, but shall also find ways to innovate either by inventing new products or services or by adding value to other people's inventions (Acs et al., 2018). Therefore, having no access to finance, protection to intellectual property, and trained staffs does not necessarily mean the person cannot be an entrepreneur, as long as the person can provide innovativeness that actually gives benefit to the market (Acs et al., 2018). However, to be a successful entrepreneur there is no single agreed definition due to its broad definition of business success itself and the complex issue that is arised from determining it. Therefore, the concept of Entrepreneurial Success will be discussed further in the following section in order to get the idea of the success indicators applied in this study.

2.2.2. Definition of Entrepreneurial Success

The meaning of the word "Success" is defined as the termination of favorable or prosperous attempts or endeavors (Dictionary.Com, n.d.). This is in line with Fisher, Maritz, and Lobo (2014) suggestion that what is believed to be favorable in one particular person may not be in another person as the indicators for the achievement of prosperity itself may vary across different perspectives. Although in terms of business people generally seem to have a similar idea of the successful criteria (Islam, Khan, Obaidullah, & Alam, 2011), but Entrepreneurial Success is a subjective phenomenon that also conceived the formulated objectives as it depends on the implication as well as the underlying entrepreneur's motivation of commencing the business activity (Fisher et al.. 2014; Staniewski, 2016).

This study employs qualitative indicators to measure Entrepreneurial Success. According to Staniewski (2016), the most-cited qualitative indicators include the business innovation, personal and stakeholder satisfaction, and the business growth as a whole. While referring to Huan (2016), the qualitative indicators are focusing on performance measurement which include knowledge and business experience, ability in offering quality product and services, capability in developing new products and business process, capability in managing and working as a team, labor productivity, and corporate responsibility. Based on what Staniewski (2016) and Huan (2016) have indicated, this study adopts some of the Entrepreneurial Success criteria proposed by Gorgievski et al. (2011) as it includes the overall qualitative indicators mentioned above. In addition, this study suggests that the Entrepreneurial Success criteria of Gorgievski and his colleagues are likely to convey subjective measurements in which according to Wang and Ang (2004) as cited in Huan (2016) are more commonly used by researchers as it is reliable to assess Entrepreneurial Success through different indicators.

The first success criterion that this study includes is profitability. Profitability is often used as one of the performance measurements in the entrepreneurship and small business literature (Gorgievski et al., 2011). Usually, profitability is being related to the business growth that consists of the rate of sales growth, company assets growth, and profit growth (Huan, 2016). However, Fisher et al. (2014) implied that profitability can also mean to ensure that the entrepreneurs' businesses are able to generate sustainable revenue and to make the entrepreneurs become financially self-sufficient.

The second success criterion that this study includes is innovation. Gorgievski (2011) asserted that this criterion had been assumed to be a critical part of a company or business activity for its ability to become the means to increase the business growth and profitability. Innovation is claimed to be one of the business behaviors (Fisher et al., 2014), which includes the way of the company or business becoming innovative in terms of new product development, technology integration, and strategic planning acquisitions (Gorgievski et al., 2011).

The third success criterion that this study includes is contributing back to society. Gorgievski et al. (2011).explained that this criterion can also be inferred as social and environmental performance of a company or business. Having contribution to society is not a minimum behavioral standard for a business, however, Gorgievski et al. (2011) added up to his argument that this criterion was for achieving goals in terms of improving social and environmental welfare beyond the direct economic, technical, and legal interest of the business. McWilliams and Segel (2001) as cited in Gorgievski et al. (2011) described the activities that could be considered as contributing back to society were mostly philanthropic behaviors like pursuing environmentally practices, giving to charities, and supporting community activities. Nevertheless, the main idea of this criterion is to be socially conscious and have a sustainable production method (Gorgievski et al., 2011).

The fourth success criterion that this study includes is personal satisfaction. Satisfaction is one of the rewards that supposed to be enjoyed by entrepreneurs as a form of success attainment. Van Praag and Versloot (2007) as cited in Gorgievski et al. (2011) asserted that the satisfaction of business owners that were generated from their own jobs instead of financial achievement was more significant to the owners. Gorgievski et al. (2011) strengthened up this notion by providing the result of his own and his colleagues' in-depth interviews that indicated entrepreneurs would only consider themselves successful if by being an entrepreneur would add to their own satisfaction in general, regardless of the actual business performance. Gorgievski et al.

(2011) suggested that personal satisfaction could be measured by certain condition such as whether the entrepreneur would like to invest more time and money, whether to cut back, or even to shut the business down instead.

The fifth success criterion that this study includes is satisfied stakeholders. The stakeholders referred in this study are employees or staffs and customers. As entrepreneurs often deal with different parties in the business environment such as employees, customers, suppliers, governments, and other stakeholders, it is crucial to maintain good relationship with stakeholders (Huan, 2016).

The sixth success criterion that this study includes is balance between work and private life. According to Mitra (2002) and Mariussen with his colleagues (1997) as cited in Gorgievski et al (2011), there are certain business owners that prefer a job which allows them to have more time with their significant others and/or families. This is because entrepreneurs actually have the capacity for the autonomy and flexibility. Moreover, Gorgievski et al (2011) asserted that based on his study with his colleagues the idea of work life balance as the success criteria is validated by entrepreneurs who indicated a positive work-life balance is the crowning glory of their hard work.

The seventh success criterion that this study includes is public recognition. Kuratko et al. (1997) as cited in Gorgievski et al. (2011) suggested public recognition as one of the intrinsic rewards of the business owners. The importance of this criterion as the success indicators has been shown in the study result of Fisher et al. (2014) which indicates the entrepreneur perceives public recognition as a positive consequence of Entrepreneurial Success. Public recognition can be in a form of special attention given by the population of popular media platform towards the entrepreneurs themselves or the offered product or services (Gorgievski et al., 2011).

The last success criterion that this study includes is utility or usefulness. Entrepreneurs’ businesses who can develop products or services that are not merely good or tasty for example in terms of appearance and senses but can provide or serve an important function in society, then these entrepreneurs will receive much more fulfillment from the business (Gorgievski et al., 2011)..

2.3. Human Capital and Entrepreneurial Success

Shane and Venkataraman (2000) as cited in Santarelli and Tran (2013) explained that economically, Human Capital had the relationship with entrepreneurial performance in becoming the drivers of successful entrepreneurship in which Human Capital increased the entrepreneurs’ capacity to perform the basic entrepreneurial tasks, to discover and develop business opportunities. Moreover, the Human Capital of entrepreneurs is argued to be crucial in new technology-based ventures and young innovative companies with the reason that what is known and can be done in the young innovative companies is related to what entrepreneurs are knowing and capable to do (Giraudo, Grilli, & Mrkajic, 2016). Principally, Human Capital relates to the intrinsic qualities of entrepreneurs and is believed to have a positive influence on the Entrepreneurial Success (Brixy & Hessels, 2010).

In terms of Competence, Parker and Van Praag (2006) as cited in Santarelli and Tran (2013) suggested that one of the values of Competence which was education, also referred as prior knowledge had proven a strong influence towards Entrepreneurial Success. Shane (2000) as cited in Santarelli and Tran (2013) asserted that the reason of this strong influence was because prior knowledge could increase the entrepreneur’s stock of information and skills and help the person in discovering entrepreneurial opportunities that are not visible to other people. Meanwhile, in terms of Attitude, the interpretation of how it relates to Entrepreneurial Success seems to be more vary than competence. Haris and Gibson (2008) as cited in Bolton and Lane (2012) implied that Attitude seemed to vary somewhat by culture and gender as well. This is probably because Attitude also refers to a combination of various categories like mental concept and life style (Tamizharasi & Panchanatham, 2010). However, there are certain specific Attitudes that are believed to lead a person becoming successful entrepreneurs because of the predominantly used in the existing entrepreneurial literature; that are personal control, self-esteem, and need for achievement (Bolton & Lane, 2012). Finally, in terms of Intellectual Agility the main influential aspects of this dimension toward Entrepreneurial Success are adaptability and flexibility (Olien, 2012). Olien (2012) indicated that adaptability and flexibility were included as personal effectiveness for the entrepreneurs. Adaptability in entrepreneurial context is often referred as cognitive adaptability, which means the ability to effectively adapt decision policies due to the rapid, substantial, and discontinuous change of business environment (Haynie, Shepherd, & Patzelt, 2012).

2.4. Significance of the Study

By examining the dimensions of Human Capital towards Entrepreneurial Success, this study will give a better understanding to the new entrepreneurs who are currently in the stage of developing the business to become mature, especially on figuring out which dimension is the most influential. By knowing so, certain aspects of the dimensions may be able to be enhanced in the real business activity.

2.5. Theoretical Framework

The theoretical framework used in this study is shown below

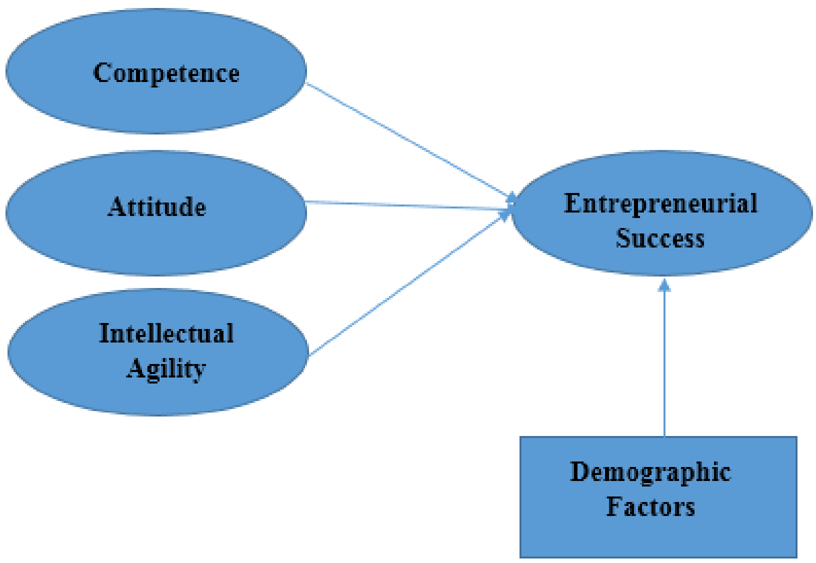

Figure 2.1. Proposed theoretical framework.

This research study relates the dimensions of Competence, Attitude, and Intellectual Agility as the independent variables to the aspects of Entrepreneurial Success as the dependent variable. The hypotheses used are described as follows.

H1 : The stronger the Competence of the entrepreneur, the greater the possibility of the business becomes successful

H2 : The stronger the Attitudes of the entrepreneur, the greater the possibility of the business becomes successful

H3 : The stronger the Intellectual Agility of the entrepreneur, the greater the possibility of the business becomes successful

Meanwhile, demographic factors such as gender, age, level of education, creative sectors, location, length of business, employee experience, entrepreneurial parents, and previous business experience were also included as the controlling variables.