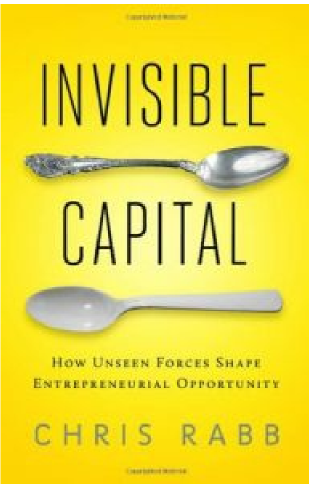

Book Invisible Capital

How Unseen Forces Shape Entrepreneurial Opportunity

Chris Rabb
Berrett-Koehler, 2010
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Recommendation

How do you explain the high failure rate for new businesses in the US, land of opportunity and the American Dream? A great concept, hard work and seed money often are not enough to ensure success. So says consultant Chris Rabb, who explains that, in addition to economic capital, entrepreneurs need "invisible capital" to succeed. These unseen assets consist of the accumulated knowledge, experience, networks and personal strengths prospective business owners bring to their ventures. Presenting an original idea like invisible capital is a challenge, and Rabb succeeds at times in explaining it through examples, demographic data and academic studies. But his book suffers from his scatter-shot approach, which veers from sociological text to policy analysis to social critique. While alerting readers that this is not a how-to guide, *BooksInShort* finds that the book provides good insights about the myths and realities of "micropreneurship," along with thought-provoking information on why new businesses fail – and how to make yours succeed.

Take-Aways

- Studies show that the vast majority of new US businesses fail within four years.
- Many small businesses never make enough income for their owners to quit their day jobs.
- To succeed, entrepreneurs need to tap into their "invisible capital": their knowledge, social networks, and job and life experiences.
- Unlike tangible capital, your "cultural, human and social capital" are the hidden assets that your education, social status and relationships bring to your business.
- Leverage your social capital to enter a network for access to high-status groups.
- When more people use their invisible capital, new-business survival rates will increase.
- Entrepreneurs need to create jobs to benefit the community and the larger economy.
- Americans are no happier than they were in 1961, so consumerism isn't the answer.
- The Happy Planet Index, which measures life satisfaction, longevity and environmental impact, is a better metric of growth than gross domestic product.
- "Micropreneurs" should build community-centered businesses that provide employment and enhance neighborhoods.

Summary

Prevailing Myths

Many people think entrepreneurs need only an exceptional idea, a solid work ethic and start-up capital to strike it rich, but the reality is much different. The Kauffman Survey found that the chances of a new business earning more than $25,000 annually, being able to afford staff and making it past the fourth year are slim: just 12.5%. In fact, 98% of American businesses are "microenterprises" run solely by their owners. Data also show that more than 50% of businesses are home-based and 70%

are sole proprietorships. Many new small businesses never generate enough income for their owners, or "micropreneurs," to quit their full-time jobs.

> "We face a crisis of entrepreneurial literacy in our country."

While small businesses can provide decent livings for their owners, the firms that will grow to create important job opportunities for the economy will require a new entrepreneurial mind-set. Management guru Peter Drucker noted that being a small-business owner is not synonymous with being an entrepreneur. Entrepreneurship is a strategy and a process that can run the whole gamut of risk-taking behavior. True entrepreneurs create value for society, the public and the market. They assess conditions to recognize opportunity and leverage it for financial gain. They can invent new products or processes, or improve on an existing idea, such as the advancements Bill Gates and Ray Kroc realized with software and hamburgers, respectively.

Out of Sight

Becoming a thriving entrepreneur requires a variety of talents and resources, but some of the most important and valuable ones are not readily apparent to most people. In fact, they are the "invisible capital" of unacknowledged connections, relationships or access to the main engines of commerce that can make or break an emerging business. Entrepreneurs should understand how invisible capital works and how they can leverage it, so they can compete effectively.

> "Too many think tanks and business books act as if all it takes to achieve entrepreneurial success is to follow the Yellow Brick Road of hard work."

While tangible capital is an interchangeable form of wealth, invisible capital consists of the knowledge, language, social networks, personal traits, and job and life experiences of the budding business tycoon. This litany of assets includes the entrepreneur's heritage, gender, mental abilities, parentage and family connections. But common textbook discussions and popular media stories about entrepreneurship don't cover these factors. For example, real estate mogul Donald Trump exhorts those who strike out on their own to "tough it out," "listen to your gut" and "take chances." While persistence and hard work contributed to Trump's success, his entrepreneurial gains really began with the connections he made and the lessons he learned growing up in his family's real estate firm. While Trump possesses all the attributes he considers vital, his crucial invisible capital is having been born into his father's business.

> "The story of entrepreneurship would be great if it were true. But it's not."

When more people understand how to identify and use invisible capital, the new-business survival rate will increase. This will build wealth, add jobs, expand the tax base and make local communities stronger – a significant achievement given America's rising income inequality and shrinking middle class. To close the job and opportunity gap, local entrepreneurs should set up community-centered businesses that provide new jobs and enhance their neighborhoods. While strengthening the community, local start-ups also add to an entrepreneur's invisible capital.

Types of Capital

Capital is "something whose value resides only in its ability to create wealth." Typically, people consider capital solely in its economic guise: money, machinery, land or patents. But you are born with certain types of "ascribed" assets: your race, gender, national origin, religious background and socioeconomic status. All these are factors outside your control, and they don't necessarily predetermine your success or failure. For instance, a white male might appear to have some advantages in the business world over a Latina, but he likely won't do as well she would running a childcare business in a Hispanic neighborhood. Characteristics you're born with can seemingly position you better or worse than others, but those qualities won't decide your final outcome; that often relies to a greater extent on other aspects of your invisible capital.

> "Just by revealing the workings of invisible capital, we make democratizing entrepreneurial opportunity that much more possible and level a playing field that too few of us even realize is not flat."

Over time, you acquire aspects of your life that you may not recognize as assets: your "cultural, human and social" capital. Cultural capital connotes your formal education and the social status you attain. Human capital comprises the skills and knowledge you accumulate through life experiences. Social capital is the most complex because it includes the relationships, networks and affiliations that connect people to one another. Most prospective business owners don't consider how important cultivating such capital is to their ultimate success.

> "Our nation does not need more entrepreneurs: We simply need better-prepared entrepreneurs."

Your ascribed, cultural and human capital often will dictate your social capital; that is, your birthplace, education or job will direct not just what you know but whom you know. For instance, Harvard imparts not only a top-notch education but a highly prized alumni network as well. Your social capital is the mechanism through which you convert invisible capital into material wealth. Use it to enter a social or professional network that ideally provides access to a high-status group. Studies have found that entrepreneurs naturally ally themselves with people they know and with whom they share a background or social status. Entrepreneurs from low-income backgrounds, who generally don't have access to "angel investor" financing and professional support groups, tend to launch their businesses independently and, as a result, have less chance of succeeding.

Democratic Capitalism

Just as an informed electorate supports a strong democracy, so, too, does a vibrant entrepreneurial class sustain a flourishing economy. Yet the rate of business failures in the US thwarts the intentions of the myriad government agencies and programs set up to help fledgling businesspeople.

> "I hate to break it to my fellow Americans, but in almost every category of entrepreneurial behavior we are outpaced by our counterparts in the industrialized world."

What's missing in government aid is an explicit understanding and acknowledgement of the value of invisible capital. Despite helping individuals on a one-on-one basis, government programs for Disadvantaged Business Enterprises (DBEs) – minority- and female-owned businesses – have largely failed because they do not consider the larger environment. For example, after World War II, US veterans benefited from the GI Bill, which paid for their college tuition. Yet, despite that boost, many top universities excluded African-Americans due to racial bias, so that minority had to forego the useful invisible capital it would have garnered from experiences in those higher echelon settings.

How Entrepreneurs Can Succeed

Entrepreneurship has different meanings to people in different roles: politicians, journalists, investors and policymakers. Numerous government agency researchers and other academics have studied small business development, focusing on revenue and longevity measures. But these metrics elevate profitability and growth over other factors.

> "We operate in an economy composed of markets, but we live in a society comprised of communities."

A better measure of entrepreneurial viability comes from analyzing statistics that researchers have distilled from the vast storehouse of small-business data the US Census Bureau compiles in its Characteristics of Business Owners (CBO). Indicators of a new business's success include the industry in which it operates, a business owner's previous experience in a family-owned business or other relevant background, as well as his or her educational level and access to start-up capital. Few researchers have had access to the CBO, so the general public is not yet aware of the characteristics they need to become potentially successful small-business operators. But these traits are only factors of success, not guarantees.

> "A business that benefits the community also benefits the entrepreneur."

In addition, government studies in this area have traditionally excluded agricultural and nonprofit businesses – such as organic farms and nonprofit support groups – from the entrepreneurial category. Including these start-up groups that advance a community's living standards would alter the definition of a "successful" entrepreneur, since it would include benefits that accrue to society as opposed to those monetary rewards that go only to the individual.

> "Invisible capital is not a proxy for racism, sexism, classism, xenophobia or heterosexism."

When a community business provides "social value," it improves the neighborhood and secures the well-being of its children, land and environment, while providing employment. These community values supersede the financial value of community businesses. While all enterprises provide a public good simply by employing workers who then become consumers, firms that add social value also advance society and the larger community. For example, many microenterprises have owner-managers who often earn less than their salaried employees; profit alone is not the sole motivator for these entrepreneurs.

> "Invisible capital is also no substitute for the entrepreneurial trinity of hard work, ingenuity and mental fortitude."

Since microenterprises meet essential community needs, they need assistance in identifying and using their invisible capital. Contrary to popular notions, the American Dream is not always a Horatio Alger story of individuals overcoming overwhelming odds by themselves. Rather, the true story lies in micropreneurs overcoming obstacles due to their invisible capital, including their social connections, education and financial strength.

You Can't Buy Happiness

While American politicians idealize local, small businesses, most Americans purchase many of their goods from foreign countries. Consumers who may want to "Buy American" patronize megastores that offer merchandise made elsewhere in the world. If consumers really want to buy locally, they should recognize that economic growth alone does not translate into raising a nation's overall welfare. Economist Simon Kuznets, the originator of the gross domestic product (GDP) calculation, recognized this shortfall in 1934 when he noted that GDP by itself did not necessarily equal a nation's overall prosperity. Blindly pursuing greater consumption will not help the country achieve real wealth. Instead, consumers should realize that "enough is good enough," and that success should not depend on material wealth alone.

> "If we believe in democracy and equal opportunity, embrace entrepreneurship and want continued prosperity for our nation, this prosperity must be shared in part through commonwealth entrepreneurship."

Many studies indicate the need for a new measurement to evaluate the American way of life. According to surveys, Americans are no more satisfied today than they were in 1961, the year "life satisfaction surveys" first emerged. The gap between the incomes of white and nonwhite populations is greater now than at any time in the last 100 years. Americans overemphasize the importance of financial indicators, such as the Dow Jones Industrial Average and GDP. A better measure of broad economic progress is the Happy Planet Index, which measures "life satisfaction, life expectancy" and a nation's impact on the environment. While some critics dismiss this guide as a fringe measurement, several nations have adopted it along with the Genuine Progress Index (GPI), which comprises some of the same factors used to assess GDP.

> "We live in a fragile democracy influenced in no small part by an evolving, post-meltdown economy."

The GPI measurements encompass local economic development, including "worker-, producer- and consumer-owned cooperatives, community land trusts, employee stock ownership programs, collective not-for-profit organizations, municipally owned enterprises, community development financial institutions and credit unions, and...community development corporations." Many of these nonprofits operate entrepreneurially. Society should measure an organization's success in terms of how well the enterprise serves the "triple-bottom line" – that is, meeting environmental, social and financial goals. These complex objectives are not easy to attain and evaluate. For example, Walmart – which sells more organic food than any other purveyor in the US – "has one of the greenest footprints of any retailer worldwide" and contributes vast sums through its various charities. Yet Walmart stores significantly hurt local economies: For every one job Walmart delivers to a local community, the area loses two other jobs forever. Often, the Walmart jobs are neither better nor more dependable than the ones they replaced.

> "Invisible capital's forces are largely unseen, even though they are hidden in plain sight. They are camouflaged by myth, deception and fallacy, by memes like the American Dream, or by the belief that we already have a level playing field."

Society needs to muster a concerted effort to encourage "commonwealth entrepreneurship," or community-based new businesses. This is especially important in recessionary times when the typical avenues of wealth formation for families – home ownership, financial and real estate holdings, and traditional business building – are no longer as available. Entrepreneurs need to tap into their invisible capital in order to generate prosperity.

About the Author

Chris Rabb is a writer, consultant and speaker on entrepreneurship. He worked as a US Senate aide on small business matters, and he founded and ran several enterprises.