
The Impact of Human and Social Capital on Entrepreneurs' Knowledge of Finance Alternatives

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ABSTRACT:

Building upon prior research that demonstrates how the limited knowledge of finance alternatives of entrepreneurs may cause suboptimal finance decisions, this paper examines how entrepreneurs' human and social capital influence their knowledge of finance alternatives. For this purpose, we use survey data from 103 Belgian start-ups. Results demonstrate that entrepreneurs with a business education and entrepreneurs with experience in accountancy or finance have a broader knowledge of finance alternatives. Having a strong network in the financial community is further positively associated with the knowledge of finance alternatives. However, generic human capital, including higher education, industry experience, and management experience, is almost not related with the knowledge of finance alternatives.

KEY FINDINGS:

Key finding from this study are:

- There is little support for the proposition that entrepreneurs with higher levels of generic human capital have a greater knowledge of finance alternatives than entrepreneurs with lower levels of generic human capital.
- However, there is strong support that entrepreneurs with higher levels of specific human capital have a greater knowledge of finance alternatives than entrepreneurs with lower levels of specific human capital.
- There is also evidence to suggest that entrepreneurs with more ties in the financial community have a greater knowledge of finance alternatives than entrepreneurs with fewer ties in the finance community.

IMPLICATIONS FOR MANAGERS:

- Entrepreneurs with higher levels of specific human capital (e.g. business education and past experience in accounting and finance); and higher levels of social capital experience lower knowledge gaps.
- Specific human capital is of more value than generic human capital such as a higher education degree.
- Entrepreneurs who have established social links to finance experts will have greater knowledge of financial alternatives.
- Entrepreneurs should understand that finance is a key resource for their business and failure to understand finance alternatives and their characteristics may seriously hamper the development of their ventures.
- Entrepreneurs should widen their networks and seek to make contact with finance experts.
- Enhanced education and training for entrepreneurs in financing options for new business ventures is an area that policy makers should give more attention to.