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Putting "entrepreneurial finance education" on the map

Including social capital in the entrepreneurial finance curriculum

Stephanie Alexandra Macht
School of Business and Law, Central Queensland University, Sydney, Australia

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Abstract

Purpose – The purpose of this paper is to bring attention to "entrepreneurial finance education", an aspect of entrepreneurship education that is widely taught but neglected by the educational literature. It does so by exploring how social capital, a key resource for entrepreneurs, can be incorporated into entrepreneurial finance education.

Design/methodology/approach – By drawing upon social capital literature in the context of funding sources for entrepreneurs, the paper highlights the significance of bonding and bridging social capital for entrepreneurial finance.

Findings – The review of relevant literature confirms the importance of social capital for entrepreneurial finance. The existence of bonding social capital, which refers to a trusting relationship between entrepreneurs and financiers, allows entrepreneurs to access their financiers' resources (e.g. contacts, knowledge, reputation, further funds) through bridging social capital.

Practical implications – Students of entrepreneurial finance need to understand the role that both facets of social capital play in the context of fundraising. This paper proposes ways of incorporating social capital into various approaches to entrepreneurial finance education. This allows educators to include relevant topics and research into their syllabi, while enabling students to study a crucial, yet under-represented, topic in entrepreneurial finance education.

Originality/value – Given that entrepreneurial finance education has to date been neglected in the educational literature, this paper begins to address a huge void. It clarifies potential contents of entrepreneurial finance education, demonstrates the importance of including social capital in the education of entrepreneurial finance students and suggests practical ways of achieving this.

Keywords Entrepreneurship education, Bonding, Entrepreneurial finance, Social capital, Bridging, Entrepreneurial finance education

Paper type Viewpoint

1. Introduction

The growing, albeit still emerging, body of literature considering various aspects of entrepreneurship education (EE) identified entrepreneurial finance as one of the most taught subjects within EE (Mwasalwiba, 2010). Research about entrepreneurial finance topics (e.g. entrepreneurs' access to finance) abounds and the emergence of specific entrepreneurial finance textbooks (e.g. Leach and Melicher, 2014) further emphasises the size and significance of the entrepreneurial finance field. However, educational research has to date failed to keep up with these developments as there is a marked paucity of educational literature exploring this important aspect of EE (Thapa and Chan, 2013). In fact, only a handful of published papers focus specifically on "entrepreneurial finance education" (from here on referred to as EFE) (Anderson *et al.*, 2001; Choi, 2010; Coleman, 2004; Kassicieh *et al.*, 2015; Thapa and Chan, 2013).

This paper adds to the educational literature as it aims to bring attention to the neglected field of EFE by specifically exploring how social capital, a key resource for entrepreneurs that should be included in EE (Bridge, 2013, 2014), can be incorporated

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also into EFE. As such, the paper puts EFE on the "educational map" as it starts to fill the void that is EFE, while also addressing Bridge's (2014) call for further exploration of social capital within the broad area of EE. The paper achieves its aim by providing a framework of EFE, by exploring some of the entrepreneurial finance and social capital literature, and by suggesting ways of incorporating social capital into EFE.

The paper is structured as follows. The next section provides an overview of entrepreneurial finance and EFE by defining it; by presenting a framework that locates EFE within the broader educational realm; and by reviewing the very limited amount of extant literature on EFE. After an introduction of social capital, the paper then discusses its relevance to entrepreneurial finance through a review of relevant entrepreneurial finance and social capital literature. By drawing upon this review and the author's personal experience of EFE, the following section recommends approaches for incorporating social capital in entrepreneurial finance units. Finally, the paper concludes with a summary, an outline of limitations and a call for action.

2. Entrepreneurial finance and EFE

2.1 Overview of entrepreneurial finance

Since the early 1990s, entrepreneurial finance, which sits at the intersection between entrepreneurship and corporate finance (CF) (see Figure 1), has evolved into a distinctive and ever-growing field of study (Chemmanur and Fulghieri, 2014; Denis, 2004; Mitter and Kraus, 2011). In essence, entrepreneurial finance refers to the "financial aspects of entrepreneurship" (Paré *et al.*, 2009, p. 284) and as such, it deals with funding and financial management issues that are idiosyncratically relevant to new and growing businesses ventures (Mitter and Kraus, 2011). It is this focus on the new and growing (and therefore small) ventures that distinguishes entrepreneurial finance from CF, which deals with large, established corporations (Denis, 2004; Leach and Melicher, 2014).

The entrepreneurship literature often distinguishes between entrepreneurial ventures and small and medium-sized enterprises (SMEs), whereby the former typically refer to businesses with a high-growth potential (Brush *et al.*, 2003), while the latter generally consist of ventures that are not able to grow to such an extent (Sohl, 1999). It is not the intention of this paper to go into this kind of conceptual discussion, so that it follows the approach of much of the recent entrepreneurial finance literature that aggregates financial aspects relevant to entrepreneurial, high-growth ventures and financial aspects relevant to low-/medium-growth SMEs within the field of entrepreneurial finance (e.g. Chemmanur and Fulghieri, 2014; Fraser *et al.*, 2015;

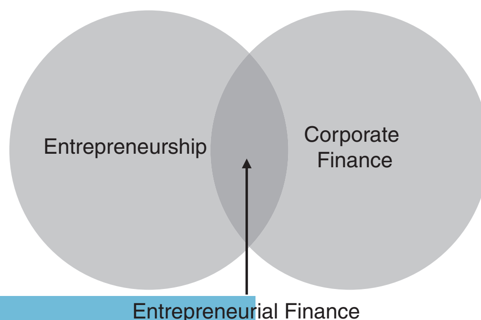

Figure 1. Entrepreneurial finance in relation to entrepreneurship and corporate finance

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Paré *et al.*, 2009). As such, small business/SME finance will be considered as part of entrepreneurial finance.

Given its broad focus on "financial aspects of entrepreneurship", there is an extensive amount of literature in this field as entrepreneurial finance encompasses a vast amount of topics, ranging from fundraising, over public policy, risk/return discussions and the investor-entrepreneur relationship, to very specific topics within these broad areas; for instance, entrepreneurial finance also incorporates debates about gender and race in relation to access to finance (e.g. Chatterji and Seamans, 2012; Harrison and Mason, 2007), the applicability of relationship marketing techniques to crowdfunding (Macht, 2014), or cross-border fund-seeking (Kong *et al.*, 2016). Since the purpose of this paper is to bring attention to EFE by exploring how social capital can be incorporated into EFE, it does not aim to provide a comprehensive literature review of all of the above topics, which would go beyond the scope of this paper. Interested readers should refer to Denis (2004), Mitter and Kraus (2011) and Paré *et al.* (2009) for more extensive reviews of entrepreneurial finance literature.

2.2 EFE: definition, framework and literature review

Given the emergence of entrepreneurial finance as a distinctive field of study, it comes as no surprise that this field has also found its way into educational practice: Many higher education institutions offer students the opportunity to study "financial aspects of entrepreneurship", i.e. entrepreneurial finance. In fact, entrepreneurial finance is included in the curriculum of most, if not all, entrepreneurship units or programmes (Mwasalwiba, 2010) and it is the most important entrepreneurial field of study as judged by entrepreneurship students (Lima *et al.*, 2015). Despite its popularity within EE, entrepreneurial finance has to date received close to no attention in the educational literature. This paper addresses this issue as it aims to put EFE on the map by exploring how social capital can be incorporated into EFE. As such, this paper relies on Paré *et al.*'s (2009) definition of entrepreneurial finance to define EFE as: programmes, units and curricula that educate learners in the financial aspects of entrepreneurship.

Since entrepreneurial finance is located at the intersection between entrepreneurship and CF, it seems logical to assume that EFE would be relevant for EE, as well as CF education – this assumption is supported by Choi's (2010) observation that his entrepreneurial finance unit mostly appeals to entrepreneurship and finance students, and by a recent USASBE pre-conference workshop on "Teaching entrepreneurial finance" (Phelan *et al.*, 2016). In order to explore EFE within the educational realm as a whole, it is therefore important to consider its relationship with EE and CF education – to achieve this, a conceptual framework of EFE was developed, depicting the location of EFE within the educational realm. The framework is based on an exploration of the entrepreneurial finance offerings at the UK's AACSB accredited business schools (AACSB, 2016). The schools' websites were searched for specific entrepreneurial finance units, as well as for evidence of EFE within "generic" entrepreneurship and finance units; as previously mentioned, the notion of small business/SME finance was considered as part of entrepreneurial finance. Through this exploration of these schools' educational practice, a framework of five different approaches to EFE, a visual display of which can be found in Figure 2, emerged:

(1) EFE within EE: entrepreneurial finance topics are explicitly discussed within more "generic" entrepreneurship units, for instance, by considering only the financial components of a business plan or by introducing potential funding

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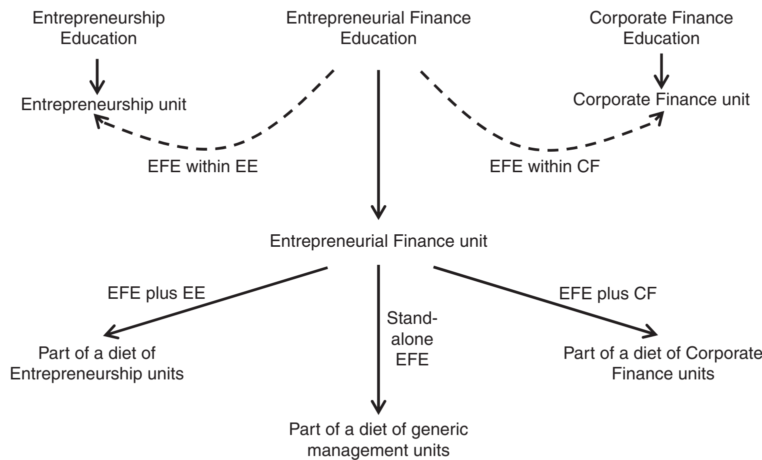

Figure 2. Framework of entrepreneurial finance education

sources to provide an overview of fundraising for new ventures. Finance tends to be only one of many aspects of the unit, so that content tends to be covered superficially at best.

(2) EFE plus EE: separate EFE units are offered, either as core or elective subjects, in a diet of entrepreneurship units within specialised entrepreneurship majors or programmes. Educators are able to delve into entrepreneurial finance in much more detail, which allows them to consider a selection of the above-mentioned topics in more depth.

(3) Standalone EFE: separate EFE units that are offered to non-specialised management programmes, such as EFE as an elective on a generic MBA programme. Similar to EFE plus EE, educators have the ability and the "space" to explore topics in detail.

(4) EFE plus CF: separate EFE units are offered, either as core or elective subjects, in a diet of finance units within specialised finance majors or programmes. Since the focus of such a unit is EFE only, it offers the opportunity to consider EFE topics in depth.

(5) EFE within CF: entrepreneurial finance topics are considered within "generic" finance units – this approach is similar to EFE within EE as it treats entrepreneurial finance as one of many topics.

As the above framework of EFE shows, EFE can be incorporated into other units (EFE within EE/CF) or it can be delivered as a separate unit on its own (EFE plus EE/CF and standalone EFE). Given the very limited amount of research on EFE, extant literature merely touched upon some of these approaches, but without discussing them in relation to one another or to EE and CF education: Phelan *et al.*'s (2016) workshop considered the integration of finance concepts into entrepreneurship units; Thapa and Chan (2013) mentioned separate entrepreneurial finance units as parts of entrepreneurship majors or programmes; Smith *et al.* (2011) suggested that entrepreneurial finance presents highly useful insights also for students of CF; and Root *et al.* (2007) identified entrepreneurial finance units as suitable components of CF programmes.

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Since the literature has not to date given sufficient attention to EFE, there is no universally accepted list of contents for the various approaches to EFE (Thapa and Chan, 2013). Even the increasing number of entrepreneurial finance textbooks, which are being published to support EFE (Anderson *et al.*, 2001), and the relevant chapters in entrepreneurship textbooks, address a variety of diverse topics: funding sources, financial components of the business plan, development and analysis of financial statements, forecasting, valuation, managing finances, growth finance, exit and harvest, turnaround finance, international finance, financial policy, deal structuring and contracting, cost of capital and risk and return (e.g. Cornwall *et al.*, 2015; Gibbons *et al.*, 2015; Klonowski, 2015; Leach and Melicher, 2014; Rogers and Makonnen, 2014; Smith *et al.*, 2011; Storey and Greene, 2010; Westhead *et al.*, 2011; Yazdipour, 2010).

Specific EFE literature, albeit consisting of only a handful of published papers, is somewhat more precise as it presents suggested topics for EFE. Coleman (2004) provided an overview of concept areas typically covered in CF and by doing so, she discussed the applicability of these areas to entrepreneurial finance, thus showing the CF issues that should be addressed also in EFE. Coleman's paper clearly suggests that EFE should cover fundraising and cash flow management, although her arguments are based on theoretical discussion, rather than actual educational practice. The latter is addressed by Kassicieh *et al.* (2015), who described the contents of their actual entrepreneurial finance unit, which includes development and analysis of financial statements and ratios, financial forecasting, business valuation, exit strategies and sources of capital.

Instead of relying on their own unit, Thapa and Chan (2013) surveyed finance educators to explore the topics they considered most important for EFE. From a choice of 28 potential topics, the respondents found the following topics to be the most important: opportunity identification and feasibility analysis, forecasting and cash budgeting, understanding and projecting financial statements and analysis of external capital needs. It is unclear how these authors have developed the list of potential topics and there appears to be substantial overlap between topics suggested, which makes it difficult to fully understand what exactly the content of EFE should be according to this research: For instance, while "examining external funds needed" is within the respondents' top five choices, "sequence of financing and their sources", as well as the actual discussion of external funding sources rank only at numbers 7 and 13, respectively, although these topics clearly overlap and it is therefore arguably important to consider them together. On the other hand, Thapa and Chan (2013) suggested that finance educators consider topics like e-commerce, legal issues and contracts least important for EFE. No discussion of entrepreneurship educators' views exists and not all of the surveyed educators teach entrepreneurial finance, which may have skewed the results.

A somewhat clearer, albeit older, study had been conducted by Anderson *et al.* (2001), who asked practitioners (entrepreneurs and financial advisers) to evaluate 30 potential entrepreneurial finance topics regarding their importance for being included in EFE. While it is again unclear what the source of the 30 potential topics is, the results show that both types of practitioners agree on the most important topics for EFE:

- cash flow management and forecasting;
- financial statement (and ratio) analysis and forecasting;

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- capital sources;
- project evaluation and time value of money; and
- entrepreneur-financier relationships.

Considering both the contents of entrepreneurial finance textbooks (which after all have been written with educational purposes in mind), and the results of the small body of literature in EFE, it becomes clear that the field is still highly under-developed and full of unanswered questions. There is some consensus in terms of the broad content areas that appear to be most important for EFE as forecasting, financial statement/ratio development and analysis, fundraising and cash flow management in their broadest sense are repeatedly mentioned. There is, however, not yet any consensus on the specific topics that should be covered within these broad content areas.

This paper starts to fill said void as it aims to bring attention to EFE by exploring how social capital can be incorporated into EFE. As the above overview of entrepreneurial finance and EFE literature has already shown, the field is vast and contains a variety of diverse and large topics. As such, this paper does not attempt to explore all potential topics but instead, it focuses only on funding sources, which is not only one of the most fundamental issues in entrepreneurial finance (Cassar, 2004), but it also repeatedly appears in the extant EFE literature.

In order to develop and grow a venture, an entrepreneur requires financial capital, which can be obtained from a variety of sources. Most entrepreneurial finance literature is concerned with the following financiers: founder, family and friends (3Fs), banks, suppliers (through the use of trade credit), business angels (private wealthy individuals buying equity through investing large amounts of their own money), venture capital (institutional investors providing very large sums in return for equity stakes), and crowdfunding (raising capital from large amounts of private individuals, whereby each crowdfunder only provides a very small amount of money) (Cassar, 2004; Clement *et al.*, 2015; Cuñat and Garcia-Appendini, 2012; Harrison and Mason, 2000; Macht, 2014; Riding, 2008; Zineldin, 1996). The fact that real entrepreneurs in Anderson *et al.*'s (2001) study considered the relationship between the providers of capital (i.e. the financiers) and the recipients (i.e. the entrepreneurs) to be a crucial element of EFE further supports this paper's focus on social capital in the context of funding sources. The following sections provide an overview of social capital and its significance for entrepreneurs and entrepreneurial finance.

3. Social capital and its relevance to entrepreneurship and entrepreneurial finance

3.1 Overview of social capital

Entrepreneurship literature is rife with studies exploring the concept of social capital, which developed based on the understanding that individuals are embedded in a social context (Stam *et al.*, 2014). Although the term itself has been defined in a variety of ways, its essence refers to the fact that organisations and individuals can gain value from their networks and relationships (Nahapiet and Ghoshal, 1998). Thus, social capital is inherent within the relationships between people (Ardichvili *et al.*, 2002; Gedajlovic *et al.*, 2013). There are two main facets of social capital: bridging and bonding.

Bridging allows individuals to access their relationship partner's resources, for instance: new contacts that the partner introduces, additional funding from the

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partner's network, new knowledge, information and advice provided by the partner. or legitimacy and reputation by being associated with the partner (Anderson and Jack, 2002; Hoang and Antoncic, 2003).

Bonding, on the other hand, refers to the relationship between the partners, which is required for long-term interaction as it manifests in interaction and creates common goals, trust and cohesiveness (Coleman, 1988). The social capital literature is still characterised by a certain level of confusion about the exact definition of bonding as it is often described with the help of a variety of concepts, including: trust, reciprocity, mutuality, commitment, shared norms, belonging, common goals, social support and co-operation (Bridge, 2014; Coleman, 1988; Stam *et al.*, 2014). It is established, however, that bonding social capital is required if one party wants to access the partner's resources, for instance, if one party wants to learn from the partner's experience (Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998).

The importance of social capital for entrepreneurs is widely accepted, as illustrated by Stam *et al.* (2014, p. 153), who found "broad agreement that entrepreneurs' social capital constitutes a key asset for small firms". In addition to its relevance in entrepreneurship in general, much research has shown that social capital plays a pivotal role in the field of entrepreneurial finance (Seghers *et al.*, 2012; Shane and Cable, 2002; Uzzi, 1999) – Jonsson and Lindbergh (2013, p. 661) tellingly summarised this body of literature: "research has increasingly emphasised the relevance of an entrepreneur's social capital in financing not only in the sourcing and accessing of funding but also in the acquisition of information that improves access to funding".

Despite this clearly demonstrated importance of social capital for entrepreneurial finance, relevant textbooks and EFE literature merely mention it in passing, for instance, Anderson *et al.*'s (2001) finding that the financier-entrepreneur relationship should be part of entrepreneurial finance units. Following Ornstein's (1994) view, that curricula should not be driven by textbooks but by pertinent topics, this paper argues that social capital should be included in EFE despite its omission in the textbooks. To show the legitimacy of this argument, this section explores social capital's significance for funding sources by drawing upon the two facets of social capital introduced above.

3.2 Bonding

In the context of entrepreneurial finance, bonding social capital refers mainly to the relationship between an entrepreneur and a financier. This paper uses the term "financier" to refer to the following types of fund provider: family members, friends, bankers, suppliers, business angels, venture capitalists and crowdfunders. Bonding suggests that social capital is required for long-term interaction between these parties as it creates common goals, trust and cohesiveness. Uzzi (1999) suggested a distinction between arm's-length and embedded ties in relationships, which overlaps with the social capital concepts of strong and weak ties as advocated by Granovetter (1985). Arm's-length ties refer to ad hoc and limited interactions between two parties, while embedded ties imply that the parties interact more frequently, get to know one another and thus build trust and cohesiveness.

In the case of business angels and venture capitalists, some basic level of trust needs to exist in the financier-entrepreneur relationship even before an investment deal is considered (Maxwell and Lévesque, 2014). This so-called "swift trust" tends to derive from an intuitive feeling of being able to trust the other party (De Clercq and Sapienza, 2006; Harrison *et al.*, 1997). Post-investment, the ongoing interaction between financier and entrepreneur enables the development of "knowledge-based trust", whereby the

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parties' trust is based upon the knowledge of working together and the experience of being able to trust one another (Harrison *et al.*, 1997; Riding *et al.*, 2007; Zineldin, 1996). In the case of 3F investors, which are often said to provide "love money", close family and friendship ties clearly suggest that trust already exists in the relationship (Grichnik *et al.*, 2014; Riding, 2008). The literature also established the importance of trust in the entrepreneur-banker and entrepreneur-supplier relationships (Howorth and Moro, 2006; Lapavitsas, 2007).

Trust strengthens the relationship (Steier and Greenwood, 1999) and facilitates the financier-entrepreneur interaction: If financiers trust entrepreneurs, they are more likely to be less controlling and more willing to provide additional support if needed (Kelly and Hay, 2001). For instance, in the case of crowdfunding, Macht (2014) suggested that entrepreneurs should attempt to build trusting and committed relationships with their crowdfunders as the latter might then be more inclined to provide more funds and/or other support.

In order to develop trust, the relationship parties need to feel that they are being treated respectfully and in a just and fair manner (Howorth and Moro, 2006; Shepherd and Zacharakis, 2001); for instance, financiers feel respected and treated fairly if their input is acknowledged, while entrepreneurs become more receptive to financier's advice if they feel part of a respectful and just relationship (Busenitz *et al.*, 1997, 2004). Moreover, the creation of trust also requires parties to establish a common ground (Sørheim, 2003), which is often referred to as "goal congruence" and denotes shared vision and values for the relationship (De Clercq and Sapienza, 2006; Zineldin, 1996). Once trust is established, the parties are more willing to expend efforts for the relationship. This shows that they are prepared to co-operate and commit to one other (Cable and Shane, 1997; De Clercq and Sapienza, 2001; Sørheim, 2003; Steier and Greenwood, 1999). This can, for instance, be seen in the financier's willingness to devote time to learn about the entrepreneur/venture or to provide additional resources (see section on bridging below) (De Clercq and Manigart, 2007; Macht, 2014).

Another aspect found to be of importance for bonding social capital refers to the personalities involved in the relationship. Reflecting on their experiences with their current financiers, Freear *et al.*'s (1990) respondents would pay more attention to the personality of their financiers prior to signing the investment deal as they were found to impact the quality of the relationship. Sørheim (2003) and Sweeting and Wong (1997) further emphasised the need for subconscious "chemistry" and a positive "gut feeling" about the counterpart already at the time of signing the deal, which may result in an emotional commitment to the partner (Paul *et al.*, 2007). Hill and Power (2001) further suggested the parties consider how well they think they can "get along" with each other. This is a question of compatibility based on the parties' psychological traits and values (Duxbury *et al.*, 1996).

Incompatible personalities can result in "affective conflicts", which tend to manifest in emotional tensions and reactions, such as disrespectful behaviour and disputes, which are often said to be destructive and may even lead to a breakdown of the relationship (Mason and Harrison, 1996; Sapienza and De Clercq, 2000). An alternative form of conflict is the "cognitive conflict", which refers to a more rational disagreement and discussion relating to a task. Financiers have been found to appreciate this form of conflict (Higashide and Birley, 2002), while research of the entrepreneurs' viewpoint is inconclusive (Brettel *et al.*, 2013; Zacharakis *et al.*, 2010). Although the literature on family and friend investors is scarce, the plethora of research in the context of family firm conflicts (e.g. Kellermanns and Eddleston, 2004; Lee and Rogoff, 1996) shows the

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potential benefits (e.g. better decisions following thorough discussions of diverging views) and drawbacks (e.g. personal animosity and negative feelings) of conflict between the 3Fs.

In summary, bonding social capital plays an important role in the development and maintenance of a relationship between an entrepreneur and a financier. The above review of bonding showed that entrepreneurial finance contains a strong human and relationship dimension as it refers to more than the logical and rational thought processes required for development and analysis of financial statements. Instead, dealing with funding sources requires entrepreneurs' intuition, subconscious and emotions. Therefore, concepts relevant for bonding social capital in entrepreneurial finance include the following: trust, commitment, chemistry, personality, justice and fairness, conflict, emotion, intuition, subconscious, getting on, gut feeling, goal congruence, co-operation, and respect.

3.3 Bridging

Bridging social capital allows entrepreneurs to access their financiers' resources. At the beginning of the relationship, this means access to funds, but once they have been provided, financiers may offer additional resources, including the following: advice, support, information, more funds, contacts or reputation. In order to gain access to their financiers' resources, entrepreneurs need to interact with them; since bonding social capital manifests in interaction, it is clear that bonding is required for bridging to take place (Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998). In fact, social capital theory argues that the extent and nature of the interaction affects the extent and nature of resources that can be provided through the relationship: infrequent and ad hoc interaction, manifested in arm's-length or weak ties, typically involve the functional exchange of some basic resources between the relationship parties, while frequent and close interaction may develop into embedded and strong ties, which may ultimately lead to a willingness to happily share also complex and private resources (Granovetter, 1985; Hite and Hesterly, 2001; Uzzi, 1999).

In the context of venture capital, business angels, crowdfunding and 3Fs, provision of resources in addition to the initial financial investment is often called "value added" and has been widely discussed in the entrepreneurial finance literature as it can provide many benefits for entrepreneurs and their ventures (Macht and Weatherston, 2014; Politis, 2008; Sapienza *et al.*, 1996). Although banking and supplier literature tends to not use the term value added, it nevertheless indicates that bankers and financiers may provide additional support, particularly financial information, e.g. about overdrafts or loans (Jonsson and Lindbergh, 2013).

Especially business angels and venture capitalists are said to share their knowledge and experiences with their investee businesses. This can happen in various forms, ranging from moral support and acting as a sounding board, mentor, advisor or non-executive director, to highly active involvement, including day-to-day participation in the running of the business as a management team member (Ehrlich *et al.*, 1994; Macht, 2011; Politis, 2008). Crowdfunders can also provide their experience, for instance, by making recommendations to the entrepreneurs or by offering their views when the entrepreneurs ask them to vote on project features (Macht and Weatherston, 2014). Suppliers might add value by providing liquidity during times of financial distress (Cuñat and Garcia-Appendini, 2012), while banks might offer favourable credit terms, high-quality service or advice (Ibbotson and Moran, 2005; Zineldin, 1996). There is, however, evidence that some banks do not provide any advice or support

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(Klonowski, 2015). Family and friend investors are often said to be insufficiently experienced and knowledgeable to provide advice, but it is conceivable that they provide moral and emotional support (Macht, 2011; Riding, 2008). By accessing these resources from their financiers, entrepreneurs are again able to draw upon social capital to gain added value.

Business angels and venture capitalists tend to be very well networked and can therefore introduce the entrepreneur to their own contacts (Sørheim, 2003). Since these private and institutional financiers tend to have a strong reputation within their circle of contacts, such introductions may open up a wide array of networks for the entrepreneur because financiers' contacts often follow their recommendation (Davila *et al.*, 2003) and because their reputation can rub off on the entrepreneur (Fried and Hisrich, 1995; Sætre, 2003). These additional networks allow entrepreneurs to access other external resources (Jarillo, 1989; Sætre, 2003), for instance, if they are introduced to advisors, mentors or other financiers (Ehrlich *et al.*, 1994).

This notion of introducing contacts is also of prime importance in crowdfunding, where backers tend to use social media to spread the word about entrepreneurs and projects. As such, entrepreneurs are also here able to access the backers' contact networks as the latter may post information on Facebook or other social media (Lehner, 2014). Again, this may increase entrepreneurs' reputation and may even result in additional funds from crowdfunders' other contacts; however, it is likely that a trusting relationship is required for the backer to make these introductions (Macht, 2014). Although there is no literature about banks and suppliers providing reputation and contacts, it is conceivable that this value-added activity happens as, for instance, Klonowski (2015) suggested that banks often refer entrepreneurs to advisers and accountants. Family and friend investors, on the other hand, are unlikely to have useful networks or reputation, as previously discussed in the context of suitable knowledge and experience (Riding, 2008).

A final resource, which entrepreneurs can access through their financiers, is additional funds: It has already been mentioned above that additional finance can be raised if financiers introduce other financiers. It is, however, also possible for financiers to provide further funds themselves. In the business angel, venture capital and crowdfunding context, this notion is often referred to as follow-on financing (Macht, 2014). In banking and trade credit, it would refer to a continued access to favourable lending or payment terms (Gibbons *et al.*, 2015; Zineldin, 1996). The only financiers said to not provide follow-on finance are family and friends as their investments are typically one-off transactions (Riding, 2008).

In summary, the above review of value-added literature has shown that financiers may provide entrepreneurs with access to the following resources: initial funds and potential follow-on finance, networks/contacts, moral support, the financier's experience and knowledge and their reputation. In order to access these resources (i.e. bridging social capital), entrepreneurs need to build and manage trusting relationships (i.e. bonding social capital) with their financiers. This not only shows a clear link between the two facets of social capital, but also suggests that both facets are highly useful for entrepreneurs. Nevertheless, it is important to also mention that there is a dark side to social capital:

- Time and commitment: building a trusting and respectful relationship with any business partner does not happen overnight. Therefore, entrepreneurs have to be aware that they need to work on networks and the relationships with their

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financiers. Depending upon the type of financier, this may take various forms, for instance, relationship marketing techniques to address large numbers of crowdfunders (Macht, 2014) or trust-building techniques to reduce conflict (Zacharakis *et al.*, 2010). Such activities may be very time consuming for entrepreneurs and they should therefore carefully consider the costs and benefits of various relationships (Adler and Kwon, 2002).

- Relationships between financiers: if entrepreneurs raise capital from various different financiers, they need to be aware of the added complexity that relationships between these financiers may create. Financiers can co-invest or invest sequentially. Despite the potential complementarity of different financiers (e.g. they might possess matching experiences), any conflict in the financier-financier relationship (e.g. if there is a personality clash), can have negative effects also on the entrepreneur-financier relationships or the business venture as a whole (Harrison and Mason, 2000). Managing and resolving such problems may distract the entrepreneur from running their business.
- Relational lock-in: by investing time and resources in the existing relationships, entrepreneurs may become inert and lose motivation or incentive to build new relationships outside their current network. As such, they may miss out on other opportunities or more suitable relationships (Maurer and Ebers, 2006) and may even get trapped in unsuitable networks (Klyver *et al.*, 2011).
- Cognitive lock-in: it is only human to be drawn towards likeminded individuals and entrepreneurs may also fall into this trap as they might focus on building relationships with others who are similar to themselves, rather than benefitting from diverse viewpoints and interaction with a wider network. Again, they might miss out on useful contacts and opportunities (Maurer and Ebers, 2006).
- Perceived obligations: opportunities may also be closed off to entrepreneurs if they feel obliged to remain in a current relationship (Klyver *et al.*, 2011) or if they feel coerced to be receptive towards a financiers' (poor) advice (e.g. Freear *et al.*, 1990; Macht, 2011).

4. The relevance of social capital for EFE

By exploring the significance of social capital in the context of funding sources for entrepreneurial ventures, the previous section has clearly shown that there is a human and relationship dimension to entrepreneurial finance. Therefore, this paper argues that it is crucial for entrepreneurs to be aware of the significant role that social capital plays in entrepreneurial finance; by extension, the paper therefore argues that social capital should be included within EFE. Given that EFE is closely related to EE more generally, the paper addresses Bridge's (2014) request to include social capital into EE by proposing to explicitly include social capital within EFE.

Having said that, it is not the author's intention to discredit the significance of the other topics within EFE. Instead, this section draws upon the author's own experience of including social capital in EFE in order to propose how it can be incorporated alongside the previously discussed typical topics in EFE; to do so, the paper returns to the framework of EFE introduced above (see Figure 2) to suggest that social capital could be incorporated within EFE in the following ways:

- EFE within EE and EFE within CF: if EFE is merely one part of an entrepreneurship or CF unit, it is unlikely that educators will be able to spend

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much time detailing all the aspects of social capital that are relevant for EFE. In this case, it is recommended that students are made aware of the importance of relationships with their financiers, the benefits of gaining access to their resources, and the dark side of social capital, but without going into much detail. Based on the author's own experience, this can be done by weaving references to social capital and financiers into discussions around finance sources and – in the case of EFE within EE – networking, which many entrepreneurship units contain (e.g. Jones and English, 2006). Bridging social capital can be mentioned in the context of funding sources (by introducing each financier's typical value added), while bonding social capital fits well in the context of networking, for instance, by discussing examples of entrepreneurs who built and/or maintained relationships with their financiers, whereby some mention of the benefits of relationships needs to be balanced with a reference to the downsides. This approach allows educators to integrate social capital into EFE, but without the need to substitute any other important topic.

- EFE plus EE, EFE plus CF and standalone EFE: in the scenario of separate entrepreneurial finance units within a diet of other units, educators are likely to have more "space" to include social capital in EFE. In this case, it is recommended that both bonding and bridging social capital are debated within the remit of the discussions around the individual funding sources. This needs to include consideration of each financier's typical value-adding activities, alongside their individual characteristics and the resulting significance of bonding, for instance, by considering the differences between managing relationships with individual business angels as opposed to managing relationships with potentially hundreds of crowdfunders. It is further recommended that such debates are complemented with a separate session dedicated to the "social and human aspects of entrepreneurial finance". The latter may draw upon guest speakers, case studies of entrepreneurial ventures that contain different funders (e.g. ventures that have been funded by family, business angel and bank finance, while now seeking venture capital), or more experiential methods, such as role plays or simulations of financier relationships, or even asking students to network with various financiers. Any such approaches can develop students' understanding of the individual financiers' specificities, while also considering various aspects of the dark side of social capital. Again, this approach enables detailed discussion of social capital in entrepreneurial finance, while leaving ample room to also cover the other important entrepreneurial finance topics (like financial statements, etc.).

Although the paper recommends educators use the two facets of social capital presented here, it does not prescribe how this is to be done, as such, educators should tailor the recommendations above to their own requirements, as long as social capital is explicitly considered. The author's own experience of including social capital within EFE spans about eight years and covers all of the above approaches to EFE. Anecdotal comments from students, guest speakers (both entrepreneurs and financiers) and colleagues (including external examiners) have repeatedly endorsed the legitimacy of this approach. Students clearly recognise the importance of social capital in the finance context and particularly appreciate the awareness that there is more to entrepreneurial finance than financial statements and figures. Guest speakers enjoy discussing the

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human and social aspects of their finance-/investment-relationships and confirm that new entrepreneurs should be made aware of the positive, as well as the dark side of such relationships. Finally, colleagues support the decision to follow Ornstein's (1994) advice and to allow relevant topics, not textbooks, to drive the curriculum. This also allows educators to utilise cutting edge, practice-relevant research in their teaching (AACSB, 2015; Burke and Rau, 2010).

5. Conclusion

The aim of this paper was to put the neglected field of EFE on the map by specifically exploring how social capital can be incorporated into EFE. By focusing on funding sources, one of the main entrepreneurial finance topics, the paper showed the significance of two key facets of social capital for entrepreneurial finance. The notion of bonding social capital, referring to a trusting relationship between entrepreneur and financier, is important for entrepreneurs as it may allow them to access their financiers' resources through bridging social capital. The latter therefore enables entrepreneurs to benefit from funds, networks/contacts, moral support, knowledge, experience and reputation.

The paper adds value to the educational literature and the broad field of EE for multiple reasons. First and foremost, it is one of the first to address EFE as a huge, yet neglected educational field. Second, the paper presents a conceptual framework of EFE, displaying its location in the broader educational realm. Third, the author followed Bridge's (2014) call for more exploration of the uses of social capital within EE by introducing the significance and relevance of social capital for EFE. Fourth, the paper proposes how educators can incorporate social capital into their entrepreneurial finance units. Finally, the paper adds to the very limited EFE literature by clarifying potential contents for EFE and as such, it begins to fill the void that is EFE.

Given that this is one of the first papers to explore EFE, it is a novel area and devoid of existing knowledge. The concept of social capital, although further developed, is also still emerging (Bridge, 2014). By bringing together two such under-developed fields, it is clear that the comments made in this paper are likely to be incomplete and full of potential to evolve further. It is therefore important to note this limitation and to clarify that this paper did not attempt to provide a fully comprehensive overview of social capital, entrepreneurial finance or EFE. Instead, it intended to raise awareness of the importance of social capital for EFE and to invite educators and scholars to consider it a starting point for further discussion and exploration, which continues to fill the void. In particular, further research should be conducted to establish a more solid understanding of the contents that EFE should provide – this requires qualitative research of educators', entrepreneurs' and students' views. Moreover, researchers should investigate the pedagogical approaches most suited to EFE, which this paper has not considered, while also exploring the nature of social capital in contexts other than finance sources.

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About the author

Stephanie Alexandra Macht is a Senior Lecturer in Strategic Management at CQ University's Sydney Campus. Her research interests span the areas of entrepreneurial finance and entrepreneurship education. Stephanie Alexandra Macht can be contacted at: s.macht@cqu.edu.au

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