

The impact of entrepreneurial human capital on initial funding: Evidence from Japan*

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Abstract

This study explores how start-up firms raise funds at founding. Using a data set of firms founded in the manufacturing and information and communications technology sectors of Japan during the period of 2003–2010, we examine whether entrepreneurial human capital, such as technological skills, affects the capital structure of start-up firms. We provide evidence that some entrepreneur-specific characteristics significantly affect initial funding. The results reveal that start-up firms managed by entrepreneurs with technological skills are less likely to rely on debt financing, suggesting that specific human capital exerts influence on debt and equity balance. We also find that start-up firms managed by entrepreneurs with university education and older entrepreneurs are more likely to have large capital, although such human capital is less associated with debt and equity balance. Moreover, we find that start-up firms located in entrepreneurs' hometowns are more likely to rely on debt financing. However, the results indicate that start-up firms relying on debt financing at founding are less likely to grow faster.

JEL Classification: G32; L26; M13

Keywords: Debt; Equity; Entrepreneurial human capital; Initial funding; Technological skill; Start-up

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