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COACHING & CONSULTING



# *The Three Capital Requirements for Business*

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*Tony Kubica and Sara LaForest*

[www.laforestconsulting.com](http://www.laforestconsulting.com)

805.710.3066



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### Who Am I and Why Can You Trust Me?

I am Sara LaForest, an entrepreneur, consultant, coach, instructor, and author with comprehensive experience in the private, nonprofit, education, and government sectors.

I am on a mission to empower entrepreneurs, executives and leaders to grow their businesses and help them create flourishing workplace environments. If you share this mission, these articles will introduce my approach. I believe you will find them helpful and pragmatic.

For more than a decade, I have grown, managed, and nurtured my own companies specializing in leadership consulting, organizational development, and executive and performance coaching. My focus is on the critical—yet often overlooked—interdependencies of strategy, branding, culture, and talent necessary to foster and propel growth. My high-touch, personalized approach helps leaders improve company performance and team functioning at all levels, while facilitating a positive and productive workplace culture.

How am I different? What new perspective do I bring? My strength is combining company growth with an emphasis on the personal growth and well-being of the people with whom I work and serve. My deep-rooted commitment to human advancement is my advantage.

This article, along with many other national and international published works, was co-written with my retired partner, Tony Kubica. Our book, *Organizational Gravity: A Guide to Strategically Growing Your Company's Brand, Culture, and Talent*, is available on [Amazon](#).

To learn more about my services, publications, and speaking engagements, please visit [LaForestConsulting.com](#). You can contact me directly at [Sara@LaForestConsulting.com](mailto:Sara@LaForestConsulting.com) or via [LinkedIn](#).

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It is commonly known that a business needs capital to succeed. And while this is true, what we have found is that many entrepreneurs, particularly microentrepreneurs, have a limited definition of capital. They define it as money.

There are, in fact, three types of capital that are essential to consider when forming and growing a business, and they are:

1. Human capital
2. Social capital
3. Financial capital

When these three types of capital are considered, leveraged and working together, the opportunity to successfully grow your business improves dramatically. In the diagram below, where you want to ideally be is at the intersection point of human, social, financial, and capital.

**Human capital** is essential to start any business. Simply, if the individuals starting a business do not have the knowledge, skills, and expertise to start and run a business, the chance of success is slim. The lack of appropriate human capital is one of the reasons for early stage business failures.

- The specific type of human capital needed will vary with the type of business you are starting. However, there are some general requirements that all businesses need regardless of the specific product or service offered:
- General understanding of what it takes to run a business in your sector
  - ⊙ Such as, if you are in the service business (*i.e.*, financial consulting, wealth management and so forth) what you are really in is the sales and marketing business. You can't deliver what you don't sell.
- Management experience
- Sales and Marketing
- Content expertise
- Operational expertise, including use of appropriate or required technology
- Financial literacy
- Industry knowledge
  - ⊙ Including its peculiarities and nuances

The probability that any one person would have all these skills is very low. So starting a business requires a clear understanding of what human capital will be required to start and then to grow the business.

One way to anticipate this is to create an *organizational chart* of what tasks need to be done in your business (based on your purpose and your strategy) and what skills are required to do these tasks. Compare that to what you already have (through you and the people you may be working with to start your business). The gap between what you have and what you need provides a road map for who you need to hire or outsource and when.

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**Social capital** is your network, your contacts, people you know who know people. We are in a highly connected world today, more so than ever before. This brings tremendous opportunity if you are in the game. If you are not, the struggle to succeed could be overwhelming.

So what are the benefits of social capital?

- Helps you identify human capital, the people you need to help grow your business
- Helps you identify funding sources or perhaps be a funding source
- Identifies and introduces you to potential early stage customers
- Enables you to be an early stage customer
- Helps get the word out to your network's network about you and your business

John Donne wrote, "No man is an island." He wrote this in the 15<sup>th</sup> century. And truly, when you are starting and growing a business, being an island is anathema to your success.

**Financial capital** is the capital we think about most when starting and growing a business. Cash is the lifeblood of the business. You can't run a business without cash. But on the other hand it's hard to get cash if you can't run a business.

That's why we put financial capital last. To get money you need human capital and social capital first. When you have those, and if they are credible and effective, your chance of getting financial capital improves.

Let's look at some of the common places where you can find financial capital.

- Personal savings
- Personal and business credit cards / lines of credit
- Customers (advance payments – buying your product)
- Friends and family
- Crowdfunding
- Banks
- SBA loans
- Angel investors
- Private equity
- Venture capital

One of the most common sources of capital for business start-ups is personal savings followed by credit cards. In other words, many businesses self-fund. When you self fund the need to human capital and social capital may not appear to be that necessary. And in the beginning, it's not. But as you grow, it becomes critical.

Once you move beyond self-funding, the need for human capital and social capital are essential. No one will be interested in loaning you money if you do not have the human resources to run and grow your business. It is too risky.

And without social capital you will be missing a very important avenue for contacts, recommendations, introductions, and simply having the word spread about you and your business.

So as you think about running your business, remember the three capital requirements and work for equal representation – or a balanced approach – to sustain you and position you for growth. And if you are planning to start a business in the future – start building your capital base now, and remember – it is much more than just cash.

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