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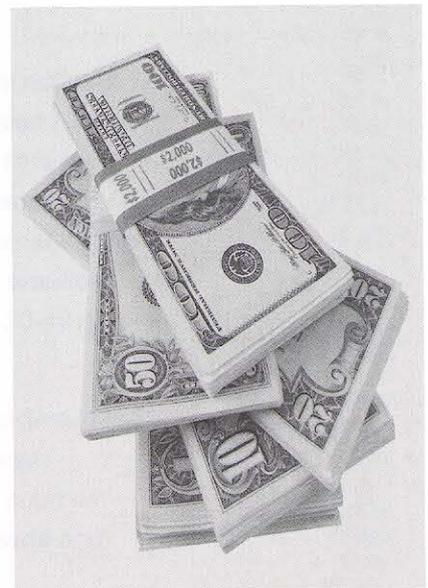


**SOURCES OF
FINANCE**

QUARTERLY SMALL BUSINESS
MANAGEMENT REPORT

L L O Y D S T S B
SMALL BUSINESS RESEARCH TRUST

Sources of Finance



**SOURCES OF
FINANCE**

QUARTERLY SMALL BUSINESS
MANAGEMENT REPORT

SMALL BUSINESS RESEARCH TRUST
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WEB VERSION: INTRODUCTION

The Lloyds Bank/TSB-sponsored series of small business management reports commenced in 1992, and concluded in 2009. In total, 53 reports were published over a period of 17 years.

Our target audience comprised the owner-managers of independent small businesses, typically employing fewer than 50, and based in mainland UK.

The series originated from a longitudinal study of small business management, undertaken by the Polytechnic of Central London (now University of Westminster), and culminating in: *The Management of Success in 'Growth Corridor' Small Firms*, (Stanworth, Purdy & Kirby, Small Business Research Trust, 1992).

THEMES

The themes were wide-ranging – including such as entrepreneurship, work & stress, employment strategies, and the environment – a full list is shown overleaf.

INSIGHT

In addition to asking questions and supplying the respondents with a range of answer options, the corresponding questionnaire was included as an appendix to each report so that readers would know exactly what questions had been put to respondents.

We also sought qualitative information – in the form of verbatim comments about the key theme – to help elaborate on whatever related challenges respondents felt they were facing at the time.

Finally, the findings are primarily intended to be indicative rather than definitive – partly due to the sample size, which is, on average, 111 for the 2003-09 reports.

PUBLISHING FORMAT

The reports were published in hard copy form, obtainable via subscription. Initially

by the Small Business Research Trust, and from 2003, by the Small Enterprise Research Team (SERTeam), both research charities based at the Open University.

Regrettably, SERTeam ceased operating in 2009, and so in 2010 the authors felt that the more recent reports would find wider interest if they were made freely available in Acrobat format via the Internet – especially with the UK economy set for a protracted journey out of recession, and with the government in turn refocusing on smaller businesses to aid the recovery.

It is worth mentioning that the series commenced as the UK economy emerged from the early 1990s recession.

In 2015, the earlier reports were also converted (1993 to 2003), with the full series made available at Kingston University: <http://business.kingston.ac.uk/sbrc>

SUPPORTING INFORMATION (WWW)

In later years – as the world-wide-web developed and an increasing number of sources of information became more readily available – suggestions for online sources of related material were included.

N.B. For reports 2003 onwards - where successfully validated, the web links (URLs) were enabled in 2009. And in the case of many invalid web links, an alternative was offered, but not where the organisation appeared defunct and an obvious replacement was not traced.

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University of Westminster**
<http://www.westminster.ac.uk/schools/business>

**David Purdy, Visiting Fellow,
Kingston University**
<http://business.kingston.ac.uk/sbrc>

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Lloyds Bank/TSB & SBRT
Quarterly Small Business Management Report
ISSN 0968-6444

1993 (Vol.1)

- 1 Surviving The RecessionFebruary 1993
- 2 Using Your TimeJune 1993
- 3 Management Style September 1993
- 4 Financial ManagementDecember 1993

1994 (Vol.2)

- 1 Purchasing March 1994
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- 1 E-commerceJune 2000
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- 4 Government & RegulationsApril 2001

2001/02 (Vol.9)

- 1 Marketing & Sales.....July 2001
- 2 The Human Side of Enterprise Oct 2001
- 3 Health Issues January 2002
- 4 Premises.....April 2002

2002 (Vol.10)

- 1 Networking in BusinessAugust 2002
- 2 The EuroDecember 2002

Lloyds TSB & Research Team
Small Business Management Report
ISSN 1478-7679

- 3 Crime Against Small Firms June 2003

Lloyds TSB & SERTeam
Small Enterprise Research Report
ISSN 1742-9773 No.2 (Vol.1) onwards

2003-04 (Vol.1)

- 1 Small Firms And PoliticsOctober 2003
- 2 Pensions February 2004
- 3 Work-Life Balance..... July 2004

2004-05 (Vol.2)

- 1 Education & EnterpriseOctober 2004
- 2 Made in Britain February 2005
- 3 Management & Gender Differences..... July 2005

2006 (Vol.3)

- 1 Local or Global ?.....January 2006
- 2 Managing IT May 2006
- 3 Networking in Business September 2006

2006-07 (Vol.4)

- 1 Owner-Manager Flexible Working..... December 2006
- 2 The Ageing Workforce..... April 2007
- 3 Travel & Transportation..... August 2007

2008-09 (Vol.5)

- 1 The London 2012 Olympic And Paralympic Games..... April 2008
- 2 Competition: Small Firms Under Pressure.....January 2009

WEB VERSION PUBLISHING

<http://business.kingston.ac.uk/sbrc>

Certain content needed to be re-set, e.g., the figures in the earlier editions, but the report body content is intended to be identical to that in the printed original. This web version - an Acrobat document - is derived from the original DTP text and will permit searching.

LIABILITY DISCLAIMER

The information and analysis in each report is offered in good faith. However, neither the publishers, the project sponsors, nor the authors, accept any liability for losses or damages which could arise for those who choose to act upon the information or analysis contained herein. Readers tracing web references are advised to ensure they are adequately protected against virus threats.

HIGHLIGHTS

This is the thirtieth in a series of small business management reports based on surveys of a panel of small firms, mainly in manufacturing, retail/distribution and business services. The focus of this survey was on **Sources of Finance**. The principal findings were as follows:

- **Most commonly used sources of finance** – **Retained profits** headed the list at 66%, followed by **bank overdrafts** (59%), **bank loan/s** (41%), **owner/s capital** (39%) and **leasing/hire purchase** (36%).
- **Firm sector variations** – There were variations in the usage of **bank overdrafts** ranging from a high of 68% for manufacturing, 59% for retail/distribution, and just 47% for the business services. Stark differences were also apparent in the use of **leasing/hire purchase**, with 48% for manufacturing firms but only 21% for the retail/distribution sector, and business services mid-way at 34%.
- **Firm size variations** – As businesses grew they also become more active in every category of finance raising save for **owners' personal reserves** (with a large fall from 41% for firms in the 0-4 employee size group to just 14% for those employing 20-49) and, to a lesser extent, for **remortgaged property**. Most notably, two categories of funding used by larger firms – **external equity capital** and **grant aid (government)** – were **totally absent in the smallest firms** but rose with size of firm to hit double figures for firms in the 20-49 size group.
- **Female owner/managers** – Women respondents appeared more active in almost all of the categories of sources of finance used than their male counterparts. However, the main differences emerged from 3 main sources: **owner/s capital: personal reserves**, **owner/s capital: family/friends** and **grant aid (government)**.
- **Levels of understanding regarding different sources** – Good levels of understanding of a range of sources of finance were claimed, starting with 77% for **bank overdrafts**, 66% for **bank loans**, 53% for **leasing/hire purchases**, 45% for **factoring/invoice discounting**, 34% for **share (equity) capital** and just 16% for **government grant aid schemes**.
- **Levels of understanding amongst females** – Generally **higher levels of understanding** on the issue of sources of finance were claimed amongst female respondents than their male counterparts. Levels of reported 'good' understanding were typically in the region of 10-15% higher. A notable exception, however, was the case of **share (equity) capital** where female respondents lagged males, 21% compared to 36%.

continued ...

- **Bank borrowing** – Only around one-in-five (19%) of respondents felt that bank borrowing was something to be studiously avoided. Against that, 56% felt it was a **'business tool for cash flow management'** and a further 13% felt it was an *'inescapable fact of business life'*. Respondents in the **business services sector** had the most definite views. On the one hand, they were the most likely to regard bank borrowing favourably as a *'business tool for cash flow management'* but also the most likely group to feel that it was *'something to be avoided'*. They were the least likely group to agree that it was an *'inescapable fact of business life'*. Female respondents were very clearly reconciled with the idea of bank borrowing.
- **Delaying payments due to suppliers** – Two-thirds of the sample felt **distinctly uncomfortable** with the idea of using money owed to suppliers as a source of business finance compared with only 13% who felt comfortable. A further 22% felt *'somewhat comfortable, with misgivings'*.
- **Delaying payments by women** – Female respondents were 3 times less likely than males to actually feel *'comfortable'* with the idea of deliberately delaying payments to suppliers and more likely to feel *'uncomfortable'*. The similarities between the two gender groups, though, clearly outweighed the differences.
- **External equity investment** – The issues of **control and autonomy** emerged strongly when we broached the notion of attracting external equity investment into their businesses as a source of funding. Nearly two-thirds (63%) were worried on the central issue of **'loss of control'**. However, a number of additional issues were highlighted here. For instance, those of *'finding prospective investor/s'*, *'evaluating the right investor'* and, finally, *'achieving an acceptable 'exit route'*.
- **External equity investment and sector variations** – Levels of anxiety over the issue of **'loss of control'** were higher for respondents in **business services** than elsewhere.
- **External equity investment and gender variations** – Female respondents were **very much less worried on the issue of 'loss of control'** by a considerable margin, of just 32% against 69%. Perhaps because they appeared more favourably inclined towards the idea of **sharing control**, the women registered higher levels of concerns than their male counterparts on the other issues involving problems of finding and evaluating prospective investors.

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ACKNOWLEDGEMENTS

The Small Business Research Trust wishes to thank all responding firms for their time and effort involved in participation in the production of this Management Report. The Trust acknowledges the help provided by David Purdy, The Open University, and The University of Westminster, in designing the survey, processing data and analysing the results.

The Small Business Research Trust is particularly pleased to acknowledge the generous support provided by Lloyds TSB in sponsoring the research, analysis and presentation of this report. However, it is important to note that any opinions expressed in this publication are not necessarily those of Lloyds TSB.

Report Author – Professor John Stanworth (University of Westminster)

Series Editor – David Purdy

Lloyds TSB

The Small Business Research Trust

MANAGEMENT ISSUES

The emphasis of our Quarterly Management Reports is on monitoring the key management problems and practices of smaller business, with an emphasis on survival and success. Accordingly, each issue of the Lloyds TSB/Small Business Research Trust Management Report addresses one or more highly topical small business management issues. In this survey we focus on **Sources of Finance**.

THE SAMPLE

This report is based on responses received from a panel of over 350 small businesses situated in the Northern, Midland and Southern regions of Britain. Respondents are predominantly small firms with fewer than 50 employees, drawn mainly from the manufacturing, business services, and retail/distribution sectors of the economy. The precise distribution of firms varies from survey to survey, but typically over half of the participants employ fewer than 10 people.

RESULTS

The questionnaire completed by sample firms appears at the end of this report as an appendix. This survey was carried out during August-September 2000.

SMALL BUSINESS RESEARCH TRUST

The Small Business Research Trust (SBRT), founded in 1983, is an educational research charity, aiming to advance the education of the public in relation to small and medium-sized enterprises in the United Kingdom and Europe. Further details may be found at www.sbirt.co.uk

PAST SURVEYS

1993 (Vol.1)

- No.1 *Surviving The Recession***
- 2 *Using Your Time***
- 3 *Management Style***
- 4 *Financial Management***

1994 (Vol.2)

- 1 *Purchasing***
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- 3 *Management Succession***
- 4 *Customers & Competitors***

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- 3 *Employment Strategies***
- 4 *Small Firms & The Environment***

1999/2000 (Vol.7)

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- 2 *Late Payment***
- 3 *Management Development***
- 4 *Exit Routes***

2000/01 (Vol.8)

- 1 *E-commerce***

SOURCES OF FINANCE

The issue of financial provision has always been a crucial one for the smaller business. The debate over whether small firms' financial needs are properly addressed by existing institutions has waged for several decades now. However, the topic of mere financial provision cannot be separated from the issue of possible threats to ownership and control which the introduction of external sources of finance may herald.

As long back as 1971, the seminal report of the Committee of Inquiry on Small Firms, chaired by John Bolton (and subsequently known as the 'Bolton Report') pointed to this crucial issue:

"The powerful underlying need to maintain and preserve independence and the strong feelings of personal satisfaction derived from one's own achievement go a long way to explaining attitudes to outside help and assistance. Government assistance was seen as leading to Government intervention; using more sophisticated financial assistance than that provided by the local bank manager would lead to a loss of independence because the organisation giving the assistance would want some measure of control over the firm. Having (once) rejected (the concept of) "the boss", (small business) respondents ... appeared almost to turn a deaf ear to any outside source of advice or help. They neither knew or wished to know about it."

Obviously, with over 3.5 million self-employed and small businesses in the UK, there will be a range of views and attitudes on the various possible sources of finance. Nonetheless, the goal of independence appears to be still very important.

SOURCES OF FINANCE USED

Figure 1 lists the sources of finance which our sample identified as those they were actually using currently. 'Retained profits' headed the list on 66%, followed by 'bank overdraft' on 59%, 'bank loan/s' on 41%, 'owner/s capital' on 39% and 'leasing/hire purchase' on 36%. Given the frequency and extent to which banks appear to be used by small businesses, it appears safe to assume that the small business sector could not exist without them.

Whilst complaints concerning the banks were not very common amongst our sample, they were not totally absent either.

One respondent complained:

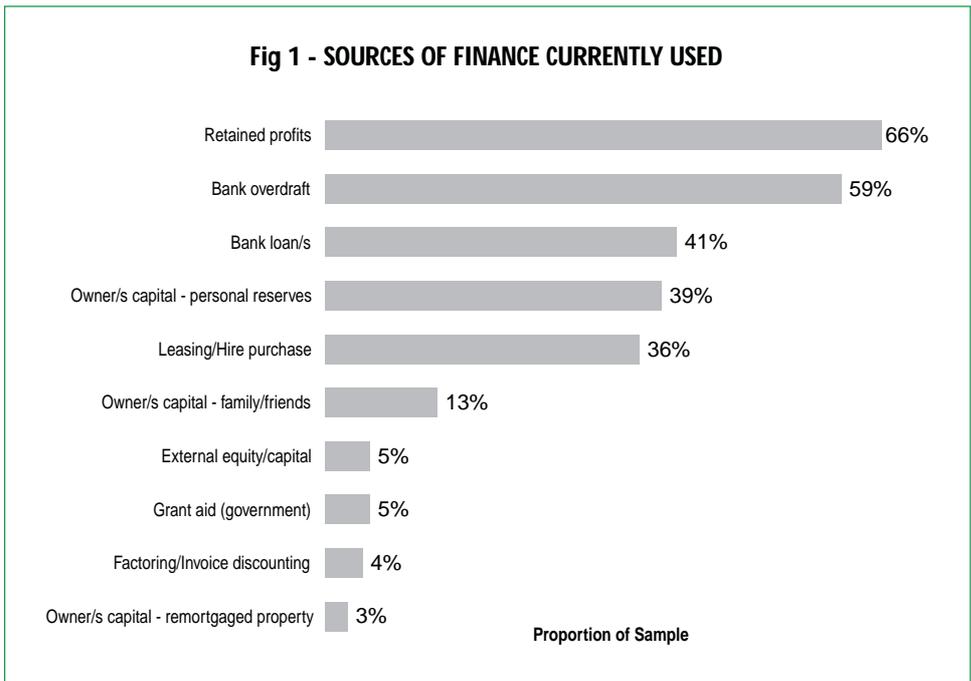
"A short-term view appears to be the normal attitude by all financial institutions towards small business."

Another said:

"Clearing banks are hopeless, inflexible, unimaginative and dull. As such they are ultimately doomed."

Yet another claimed:

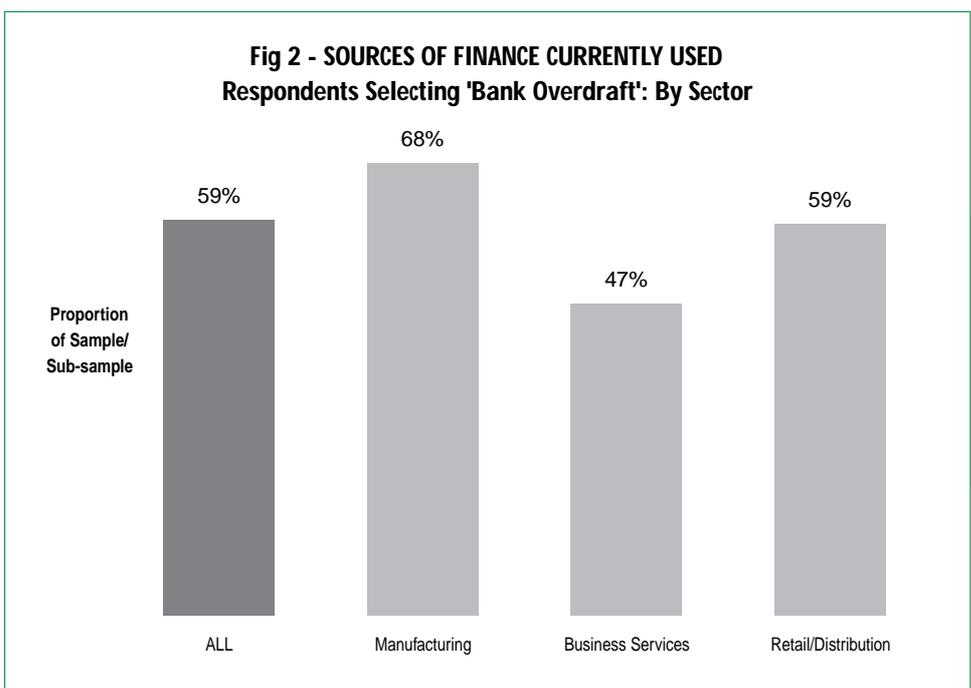
"When times are good, banks are only too willing to lend you money. As soon as times get harder they have a tendency to pull the rug from under your feet."



SECTOR DIFFERENCES

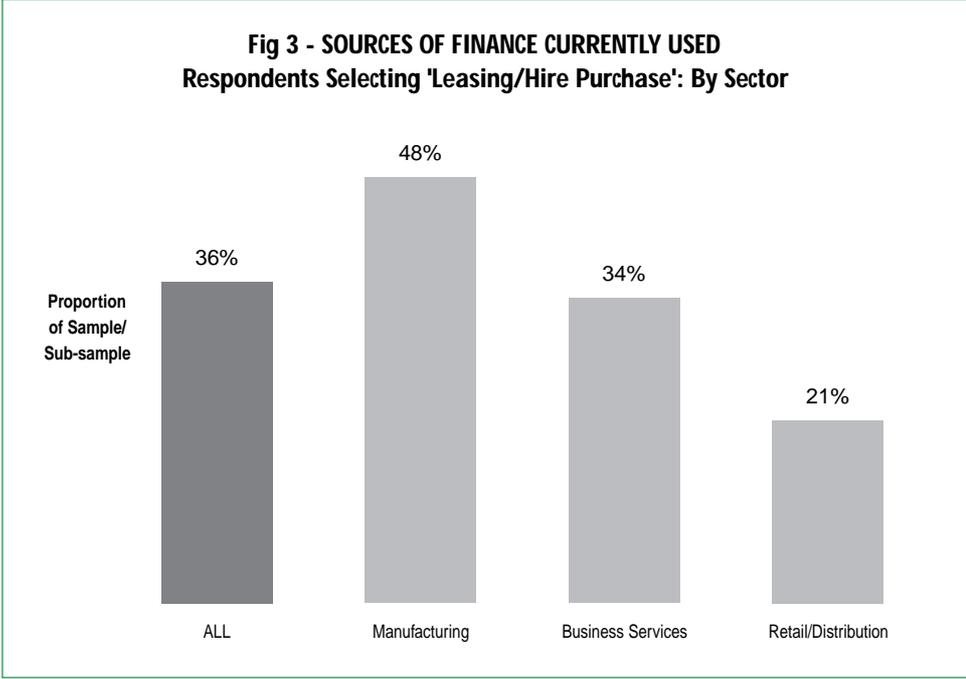
Figures 2 and 3 demonstrate sector differences. For instance, in Figure 2, we can see variations in levels of use of bank overdrafts ranging from a high of 68% for manufacturing, then 59% for the retail/distribution sector and, finally, just 47% for the business services sector.

And in Figure 3, overleaf, there are stark differences in the use of leasing/hire purchase with 48% of manufacturing firms claiming to use this source of finance as against only 21% for the retail/distribution sector, with business service in between the other sectors at 34%.



Bank overdrafts most prevalent amongst manufacturing respondents

Larger firms more likely to be users of leasing or hire purchase finance



Regarding differences in business size, **Figure 4** suggests that as businesses become larger they also become more active in every category of raising finance save for 'owners personal reserves' (where there was a large fall from 41% for firms in the 0-4 staff size group to just 14% for those employing 20-49 staff) and also 'remortgaged property' where the fall was from 6% to zero. Interestingly, 2 categories of funding used by larger firms - 'external equity capital' and 'grant aid (government)'

were absent amongst the smallest firms but rose with size of firm to hit double figures for firms in the 20-49 size group.

Looking at gender differences here (**Figure 5**), women respondents appeared more active in almost all of the categories of sources of finance than their male counterparts. However, the main differences emerged from 3 main sources - owner/s capital - personal reserves, owner/s capital - family/friends and, finally, grant

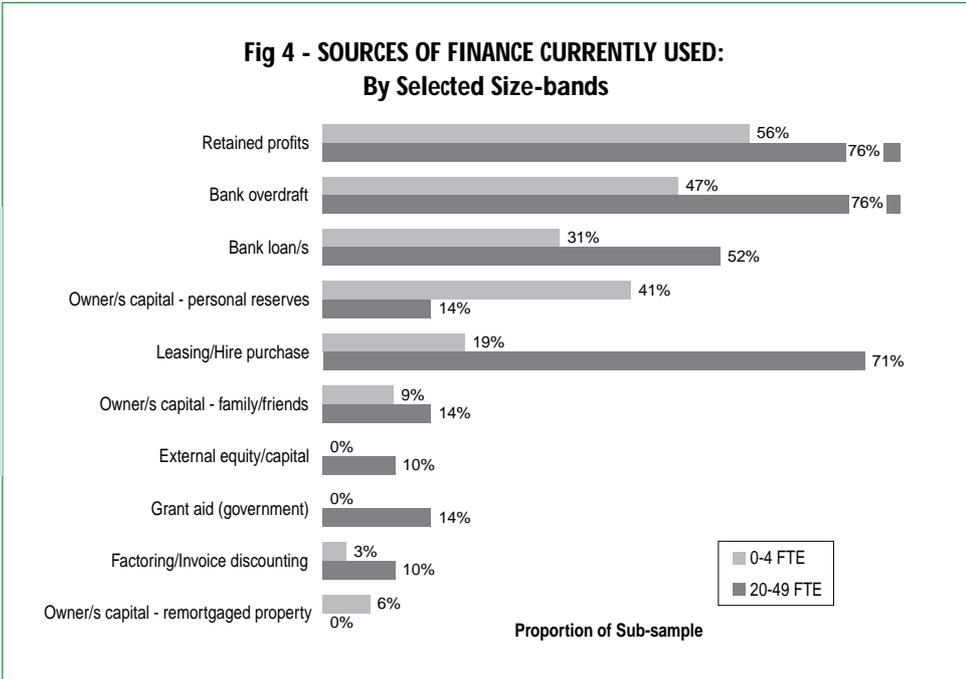
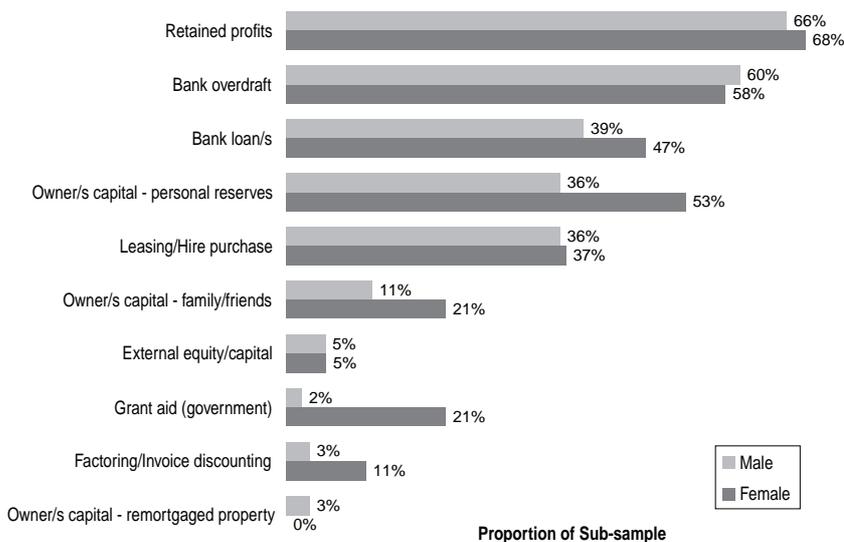


Fig 5 - SOURCES OF FINANCE CURRENTLY USED: By Gender

Women more dependent upon personal reserves and the support of family & friends

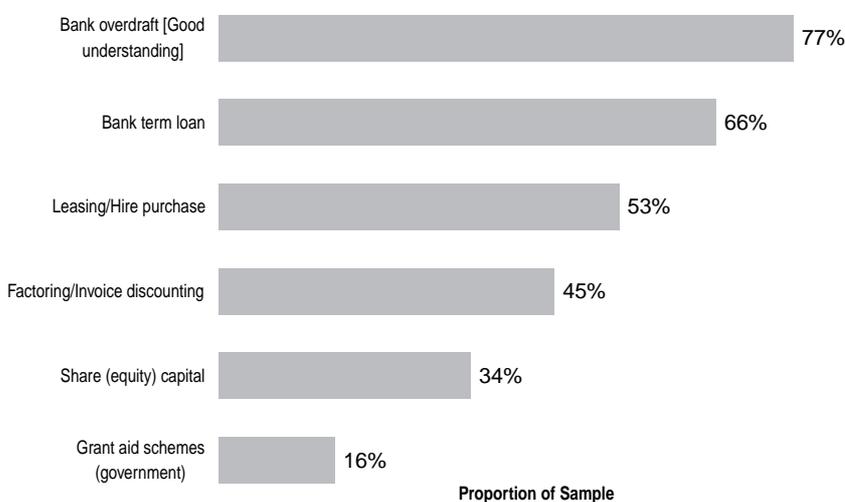
aid (government).

government grant aid schemes.

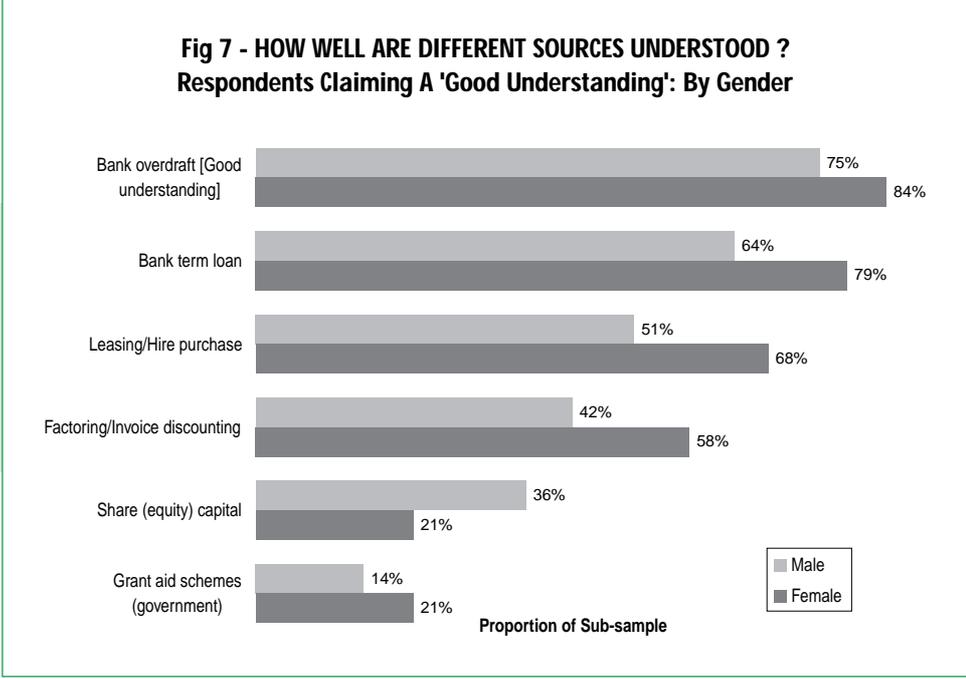
LEVELS OF UNDERSTANDING

Data presented in **Figure 6** reports on levels of understanding of various sources of finance and reports 'good' levels for the 6 main external sources starting with 77% for 'bank overdrafts', 66% for 'bank loans', 53% for 'leasing/hire purchase', 45% for 'factoring/invoice discounting', 34% for 'share (equity) capital' and just 16% for

Interestingly, **Figure 7** indicates generally higher levels of claimed understanding on the issue of sources of finance amongst female respondents than their male counterparts. Levels of reported 'good' understanding were typically in the region of 10-15% higher. A notable exception, however, was the case of 'share (equity) capital' where female respondents lagged males by 21% to 36%.

Fig 6 - HOW WELL ARE DIFFERENT SOURCES UNDERSTOOD ? Respondents Claiming A 'Good Understanding'

Women owner/managers report a better understanding of most sources



ATTITUDES TO BANK BORROWING

When we turned to the issue of bank borrowing, again interesting findings emerged. For instance, in **Figure 8**, only around one-in-five (19%) of respondents felt that bank borrowing was something to be studiously avoided. Against that, 56% felt it was a 'business tool for cash flow management' and a further 13% felt it was an 'inescapable fact of business life'.

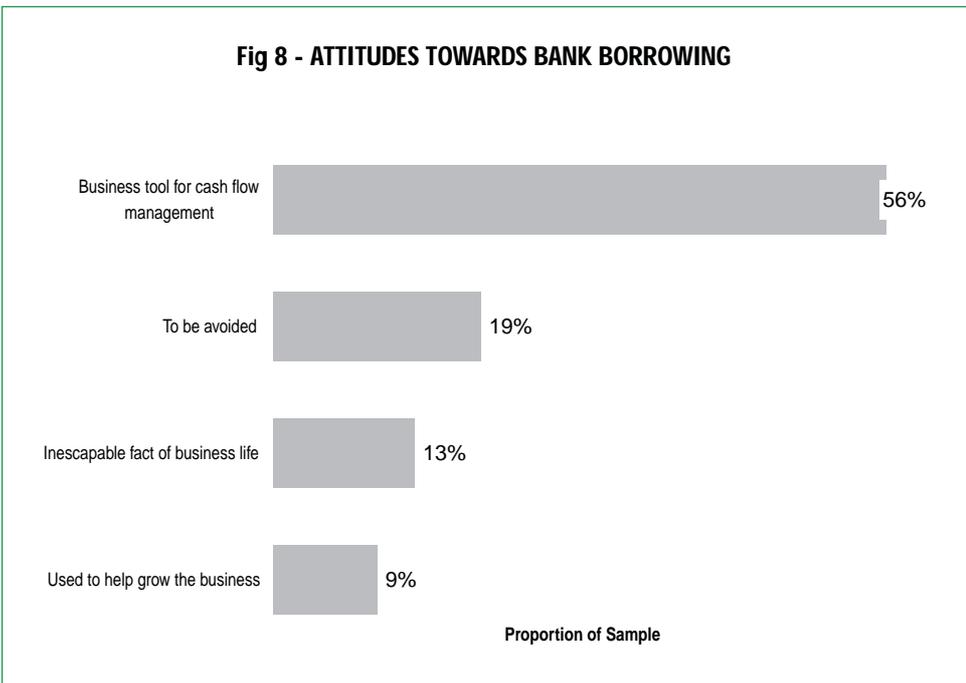
One respondent said here:

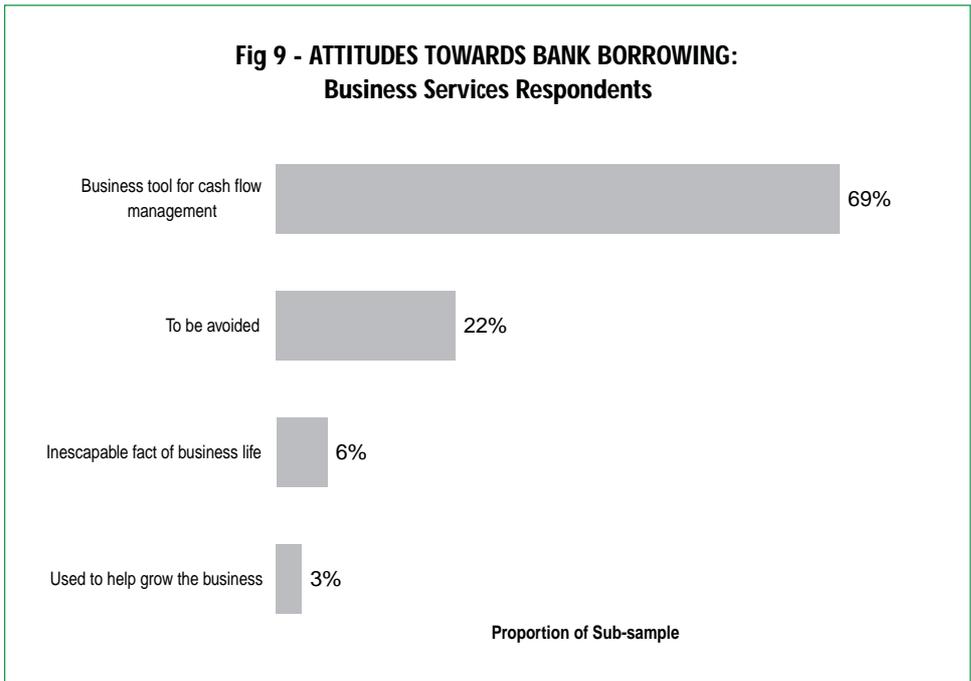
"Don't borrow unless you have to !"

And another:

"Stay out of the clutches of banks - concentrate on building your own cash reserves - that way you can control your own destiny."

Regarding head office awareness, one





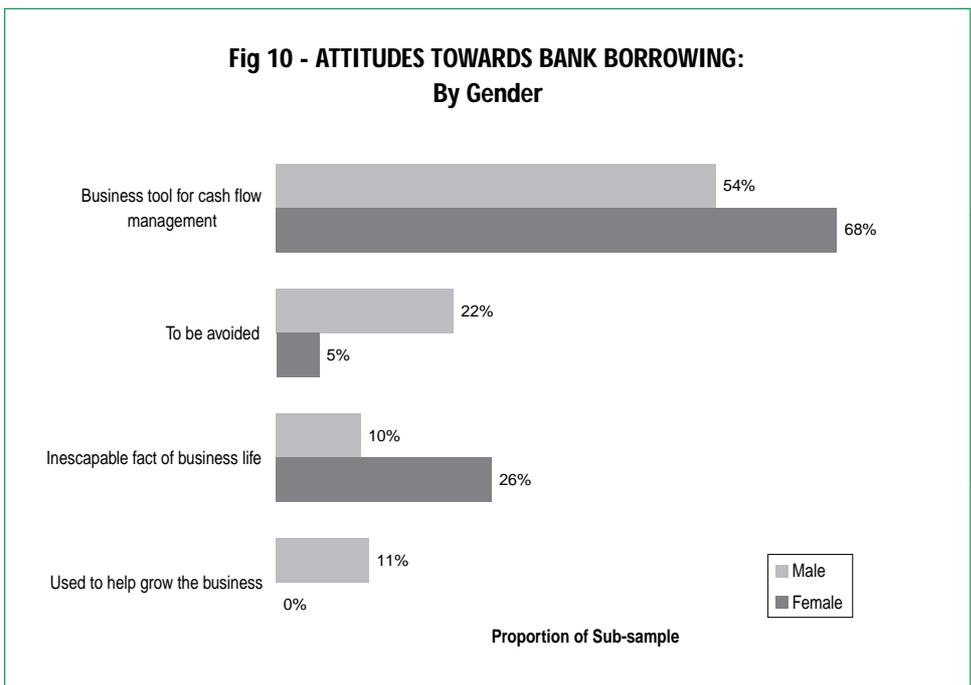
respondent insisted:

“The main source of finance for small business is the clearing banks. However, their lending policies are often influenced by their head offices who are not always aware of local difficulties.”

“The clearing banks are very slow at coming to terms with intellectual property as an asset and cash-flow based borrowing.”

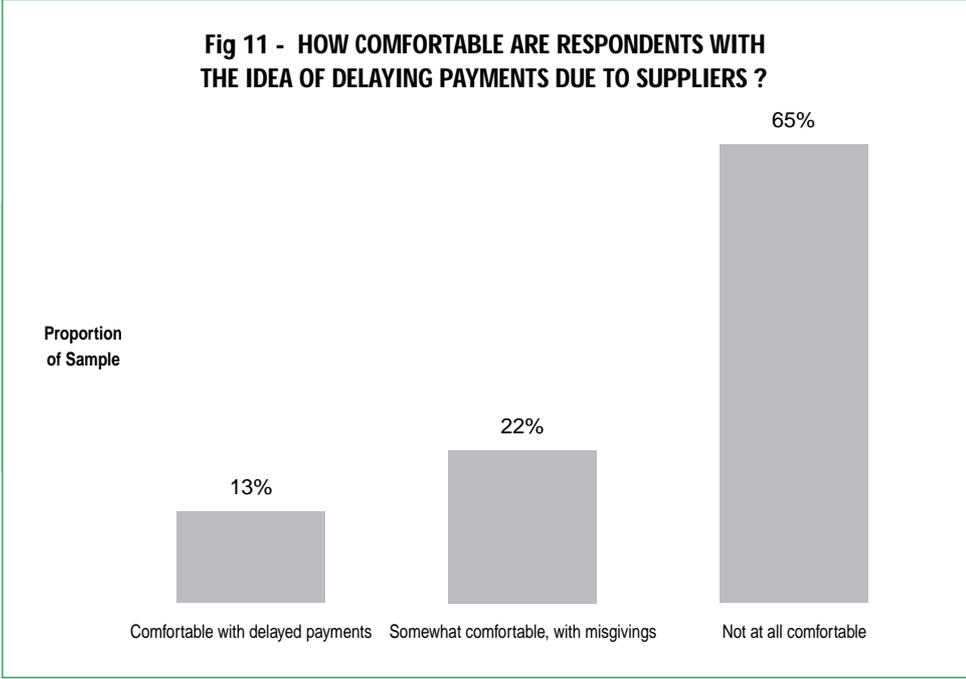
Figure 9, however, illustrates the variation we got when we analysed our data by sector. Respondents from the business services sector had the most definite views on the issue of bank borrowing. On the one hand, they were the most likely to regard it favourably as a ‘business tool for cash flow

On a more futuristic note, one owner/manager claimed:



Female respondents are more favourably disposed towards bank finance

A majority are not at all comfortable with the idea of delaying payments

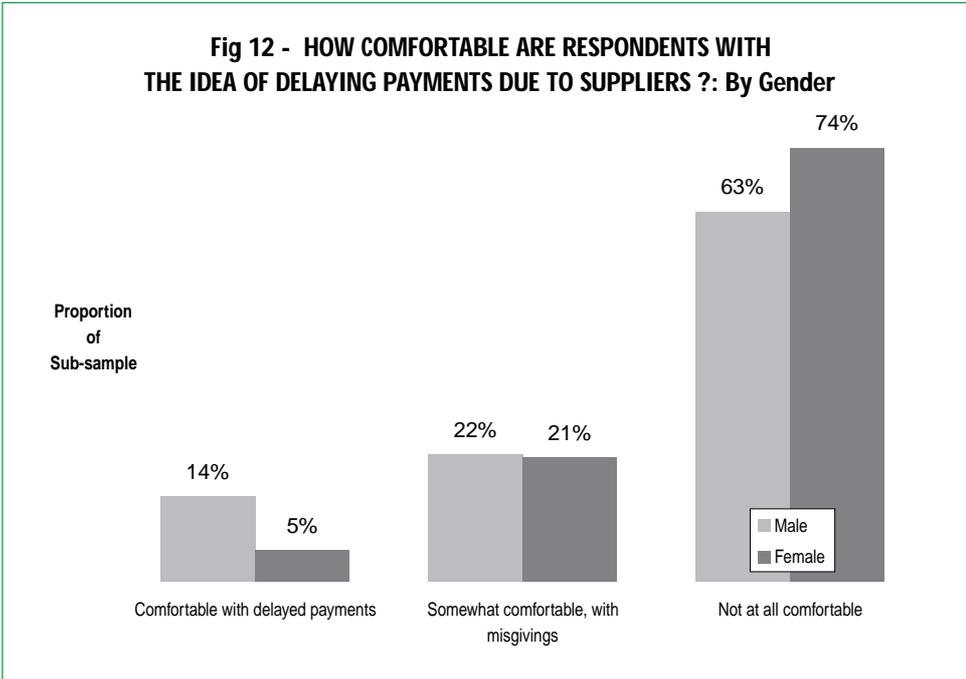


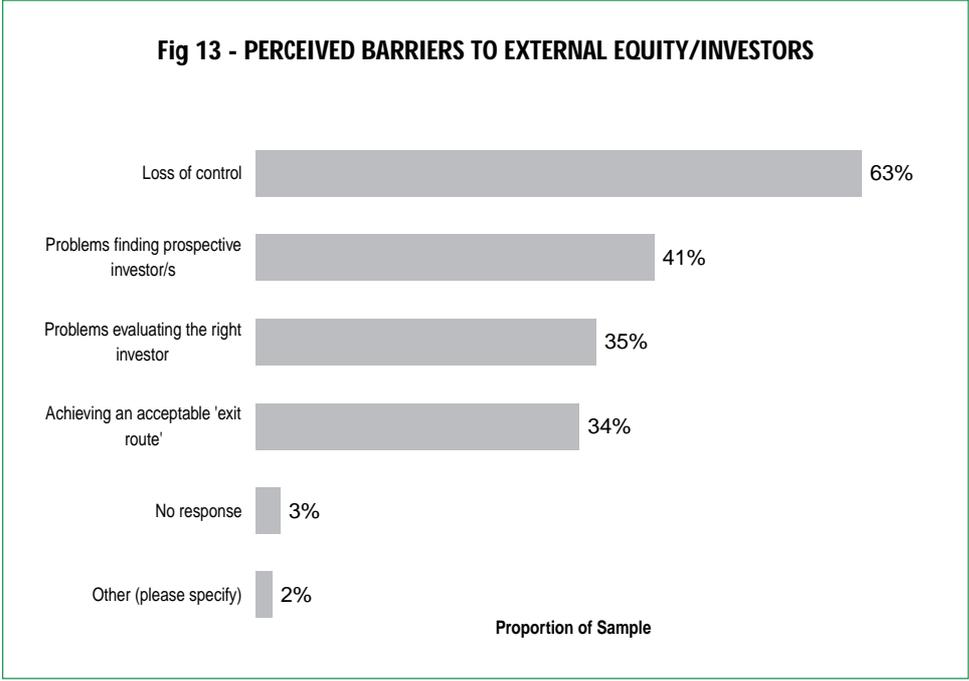
management' and also the most likely group to feel that bank borrowing was 'something to be avoided' and the least likely group to agree that it was an 'Inescapable fact of business life'.

Finally on this issue, we looked for gender differences here and found that female respondents were (Figure 10) very clearly reconciled to the issue of bank borrowing.

LATE PAYMENT AS A SOURCE OF FINANCE

Two-thirds of our sample (65%) felt distinctly uncomfortable with the idea of routinely using money owed to suppliers as a source of business finance compared with only 13% who felt comfortable (Figure 11). A further 22% felt 'somewhat comfortable, but with misgivings'.





Looking at gender differences on this issue (Figure 12), there is a clear pattern of variation between male and female respondents. Female respondents were 3 times less likely than males to actually feel 'comfortable' with the idea of deliberately delaying payments to suppliers and more likely to feel 'uncomfortable'. It should perhaps be added here that the similarities between the two gender groups clearly outweighed the differences here.

ATTITUDES TOWARDS EXTERNAL EQUITY

The issue of control and autonomy emerged strongly when we broached to notion of attracting external equity investment into their businesses as a source of funding (Figure 13). Nearly two-thirds (63%) were worried on the central issue of 'loss of control'.

One respondent said:

"Loss of control is the main barrier to (getting) external investors into small businesses. We cannot stand being told how to run our business by an 'outsider', especially if they happen to be right!"

However, a number of additional issues were highlighted here. For instance, those of 'Finding prospective investor/s', 'Evaluating the right investor' and, finally, 'Achieving an acceptable exit route'.

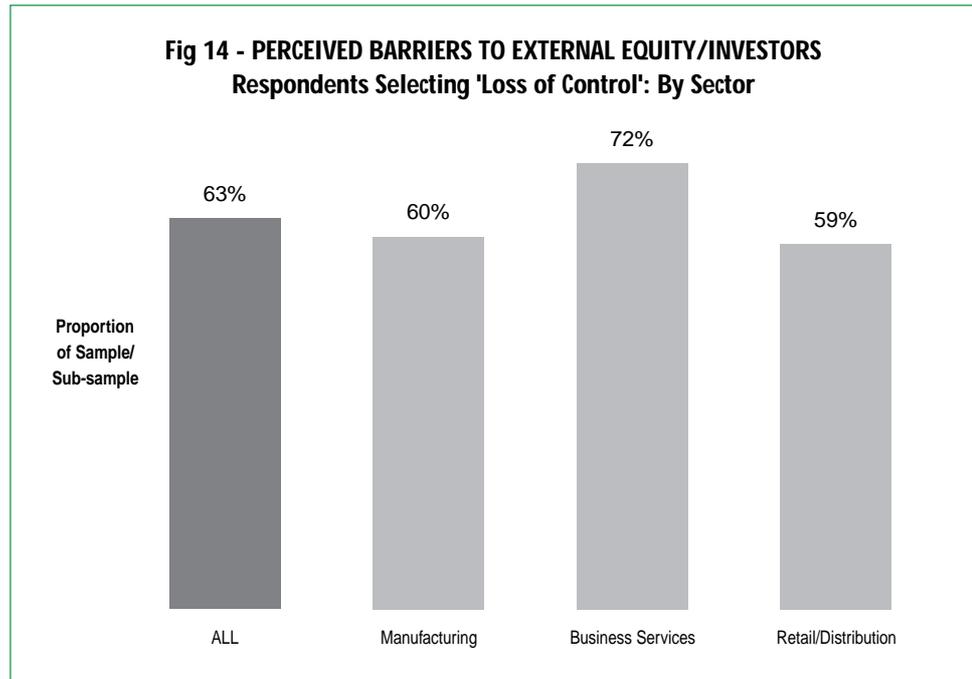
Figure 14 shows that levels of anxiety over the issue of 'Loss of control' were higher for respondents in the business service sector than elsewhere.

Finally, there were dramatic differences on these issues when we controlled for gender differences (Figure 15). Female respondents were very much less worried on the issue of 'Loss of control' by a margin of just 32% against 69%. Perhaps it was because they appeared inherently more favourably inclined towards the idea of sharing control that they showed higher levels of concern than their male counterparts on issues involving problems of finding and evaluating prospective investors.

RESPONDENTS' COMMENTS

These commence on p.18

Loss of control is less of an issue for female owner/managers



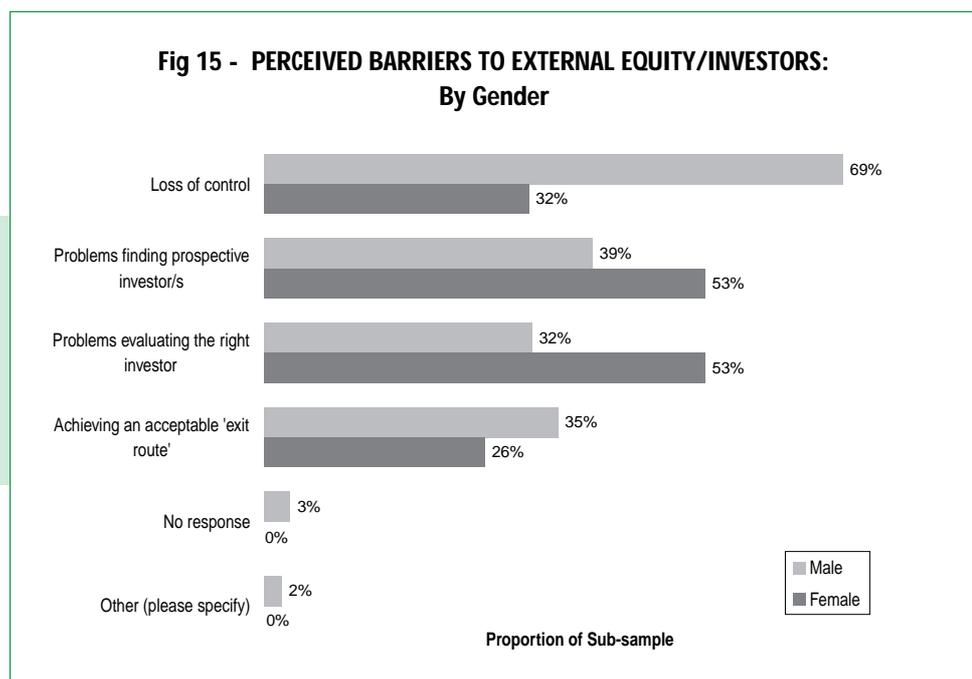
REFERENCES: SOURCES OF FINANCE

The following references are offered as an aid to readers interested in seeking further information, much of which is readily available via the Internet (WWW). The coverage is not intended to be definitive, and inclusion here should not necessarily imply either agreement or disagreement with the views expressed via these sources.

Special care should also be taken with material obtained from **outside** the UK, for example, the USA, where different legal issues may apply. N.B. Some pages may contain links to other WWW pages offering related material.

● **Bank of England**

Reports available via the Internet:
Finance for Small Firms (7th report, January 2000); *The Financing of Ethnic Minority Firms in the UK* (May 1999).



Also published: *The Financing Of Technology-Based Small Firms* (1996) - containing, "the findings of its research into the problems technology-based small firms experience in raising finance, particularly at the start-up stage. The report analyses the sources of finance for technology-based firms in the UK and in a number of overseas countries. It also includes the results of sixty case studies of technology-based firms produced by the Bank's regional agents".

<http://www.bankofengland.co.uk>

- **BBC Education**

Business and Training - Small Business Information, with a number of brief guides online, including: *Finding a Business Grant*, *Buying or Leasing*, and, *Venture Capital*.

<http://www.bbc.co.uk/education/lzone/newbusiness/smallbus.htm>

- **British Bankers' Association**

"The small business sector is an important market for banks in the UK. Since 1992 the BBA has been collating figures which demonstrate the extent to which banks support their small business customers. In March 2000 total lending to small businesses amounted to £38bn. Deposits by small businesses with banks totalled £34bn." Details can be found online under *Small Business Borrowing* (market data). Other online topics can be found under *Banks & Businesses Working Together*:

- *Microcredit in the UK*: "Micro Credit can be valuable in tackling social exclusion. This inventory lists around 60 schemes in the UK which are supported by banks. Most of them are local partnerships designed to tackle local problems"

- *E-Banking*: with suppliers' details

- *Research*: BBA Ethnic Minority Businesses Research Project

<http://www.bankfacts.org.uk/>

- **British Venture Capital Association**

Sources of equity/share capital: "The BVCA represents virtually every major source of venture capital and private equity in the UK and is dedicated to promoting the industry for the benefit of entrepreneurs, investors, its practitioners and the economy as a whole."

<http://www.bvca.co.uk/>

- **Business Link National Site**

Sources of finance details: *Financial Management Services Page*. "At Business Link we can help you with financial health checks, information on tax and revenue matters and getting to grips with financial management and planning skills. We will help source the various types of finance available as well as keep you up to date on what venture capital, grants loans and regional funding may be available. There are a large number of funding options available to small and medium-sized businesses. The help Business Links offer is important not only in identifying the assistance most suited to your circumstances, but will help you prepare applications and supporting documentation, and provide valuable follow-up advice or project management." Specific online links include:

- *Regional Enterprise Grants* (available in parts of East & West Midlands), via East Midland Government Office, West Midlands Government Office.

- *Regional Selective Assistance*: RSA takes the form of discretionary grants to encourage firms to locate or expand in areas designated as assisted areas.

- *Enterprise Zone*: Finance Section

- *ADAS (Agricultural Development and Advisory Service)*: Advice on financial planning and raising finance for farms and other businesses.

- *Small Firms Training Loans*: The scheme helps businesses with up to 50 employees pay for training by offering loans on deferred repayment terms.

- *Equity Capital*: This involves selling a share of a business to a venture capital company, preference for larger investments.

- *Business Angels Networks*: An alternative to venture capital providers, as a source of small equity capital, they are willing to make investments in small business in return for an equity stake.

- *EquityLink(tm)*: A Business Angels network which connects investors with high growth businesses looking for capital. This is an independent service, developed and operated by Business Link who will assess your company's realistic potential for growth, and then introduce your plans to appropriate investors.

- *Small Firms Loan Guarantee Scheme*: Provides a Government guarantee for loans by approved lenders for firms or individuals unable to obtain conventional finance because of lack of track record or security.

<http://www.businesslink.co.uk/services/fin.htm>

● **EPRC Ltd: Business Grants and Regulations**

Grant availability assessment: "EPRC Ltd is a spin-off company of the European Policies Research Centre at Strathclyde University and was established in 1988". They offer an online database, at a modest cost: *GrantPoint(tm)* - "A self-service database of the grants and other support available in Great Britain. If you are a small business (or starting up in business) and looking for support you can buy a GrantPoint(tm) Search".
<http://www.eprcltd.strath.ac.uk/eprcltd/>

● **FIND - Financial Information Net Directory**

"The leading Internet directory for UK financial services since 1996. Instant access to over 5,000 financial web site links." It has a *Business Services Centre* section, including:

- *Debt Management Services*
- *Merchant and Business Banking*

- *Business Finance and Venture Capital* with a comprehensive list of sources, offering different types of finance (including equity, leasing and factoring) with background information, contact details and addresses.

Also an *Information Services Centre*, including the following with extensive details:

- *Finance Guides and Newsletters*
 - *Financial Publications*
- <http://www.find.co.uk/>

● **matchco.co.uk**

"In conjunction with companies such as KPMG, Simmons & Simmons, Field Fisher Waterhouse, and The Ecademy, the matchco.co.uk process not only helps to get start-up e-ventures off the ground, it will cut the average time it takes for a business to acquire funding in weeks rather than months. An automated email system leads the entrepreneur through the process of setting up a business plan online, giving the e-entrepreneur access to a personal mentor for specific help and advice. On successful completion of the plan, the entrepreneur is guaranteed comprehensive feedback from a suitably interested venture capitalist."
<http://www.matchco.co.uk>

● **National Business Angels Network**

Linking seekers and suppliers of equity finance; the web site includes a number of case studies: "National Business Angels Network is committed to help businesses obtain equity finance and assist private investors in their search for investment opportunities. It is a new, national service working across the UK to achieve introductions between private investors (business angels) and businesses seeking finance. Sponsored by the major high street banks and experienced professional firms, its head office is in the City of London ... [and] offers an efficient low cost service, sourcing risk capital for small and medium sized businesses, which is supplied private investors in return for

shares in the business. It has Agents nationwide who provide further assistance to both businesses and investors locally.”

<http://www.nationalbusangels.co.uk/>

● **Scottish Enterprise**

Search online for information/sources of government funding.

<http://www.scottish-enterprise.com/>

● **Small Business Service**

A successor to central government's Small Firms Service: “A new organisation with a new way of working and a new mission. We have only been in existence since April 2000 and we operate across all Government Departments.” The site offers information about a variety of business topics, specifically: *Financing your business and controlling the money*, with background information for the following sub-topics:

- *Sources of help and advice*
- *What finance is right for your business ?*
- *Loans and overdrafts*
- *Grants, etc.*
- *Venture capital*
- *Late payment*
- *Factoring and invoice discounting*
- *Hire purchase and leasing*
- *Debt problems*

<http://www.businessadviceonline.org/>

● **The Prince's Trust**

A source of grants and loans for younger people wishing to go into business: “Want to work for yourself, but can't get the money you need to start your own business ? Turned down because of your age, your credit record or because you're out of work ? You can start a business, with help from The Prince's Trust. If you're 18 to 30 and unemployed or 'underemployed' (in an unfulfilling part-time or temporary job) we can offer:

- A low interest loan of up to £5,000
- Test marketing grants of up to £250

- Grants of up to £1,500 in special circumstances

This year we'll help more than 4,800 people set up in business.”

http://www.princes-trust.org.uk/ownboss_frames.htm

MANUFACTURING

| | |
|---|--|
| Building and Joinery | <i>“Don’t borrow unless you have to.”</i> |
| Design and Manufacture of Data Loggers | <i>“Too many government schemes seem geared only to [the] biggest companies - particularly R & D help. There are also too many schemes to keep abreast of.”</i> |
| Equipment Maintenance. Garage Equipment Supply and Maintenance | <i>“Funders are still reluctant to take risk. If you are doing well they will provide funds to speed up the process. If you are in a bad patch of trading they do not want to know. When the ‘helping hand’ is most needed it is not there. Not all companies in a bad patch are doomed to failure.”</i> |
| Kitchen & Furniture Manufacturers | <i>“I have always felt that all suppliers of finance look first at maximising their profits before [those of] their clients. It seems that with a little more foresight, they could see that looking at the potential growth and sustainability of a small company over a longer period of time, would bring them greater profits eventually.”</i> |
| Lithographic Printers | <i>“We find that different institutions look for different ratios and analysis. When looking for finance it depends what term which usually dictates where you would obtain the correct finance.”</i> |
| Manufacture of Drilling Rigs | <i>“Interest rates are always the problem regardless of where the finance is sourced.”</i> |
| Manufacturing Animal Feed | <i>“Bank charges are too high.”</i> |
| Office Screen Systems | <i>“Despite the assistance of a good bank manager (the same person for over 10 years), the sooner the company is able to finance itself the better.”</i> |
| Publishing | <i>“Borrow as little as you can. There should be better ways to help small firms to help finance growth.”</i> |
| Publishing. Trade and Leisure magazines | <i>“The clearing banks are very slow at coming to terms with intellectual property as an asset and cash-flow based borrowing.”</i> |
| Temperature Control Equipment | <i>“Whilst it is understood that business finance is a serious issue that needs to be planned properly, [and] on the basis almost any individual can get a loan relatively easy, it should be possible to have the business equivalent that is simple to source and enact.”</i> |

BUSINESS SERVICES

Accountancy, Audit, Tax & Management Consultancy

"The main source of finance for small business is the clearing banks. However their lending policies are often influenced by their head offices who are not always aware of local difficulties."

Analytical and Consulting Chemists (Industrial)

"Government help agencies are not aware of outside pressures and do not react quickly enough: too much Red Tape. These organisations need to be slimmed down !"

Architect

"Clearing banks [are] hopeless, inflexible, unimaginative and dull - as such they are ultimately doomed. They are losing out to other forms of finance."

Chartered Accountants

"There are plenty of people with good business start-up ideas but no capital or security. The government should give better assistance to start-ups by making capital more easily available. For example, by extending the Small Firms Loan Guarantee Schemes on by extending further tax reliefs for investors lending unsecured funds."

Consultant Naval Architects & Marine Engineers

"Stay out of the clutches of banks - concentrate on building your own cash reserves - that way you can control own destiny."

Implementation & Audit of Quality Standards

"[A] Short-term view appears to be the normal attitude by all financial institutions towards small business."

International Freight Forwarding Services

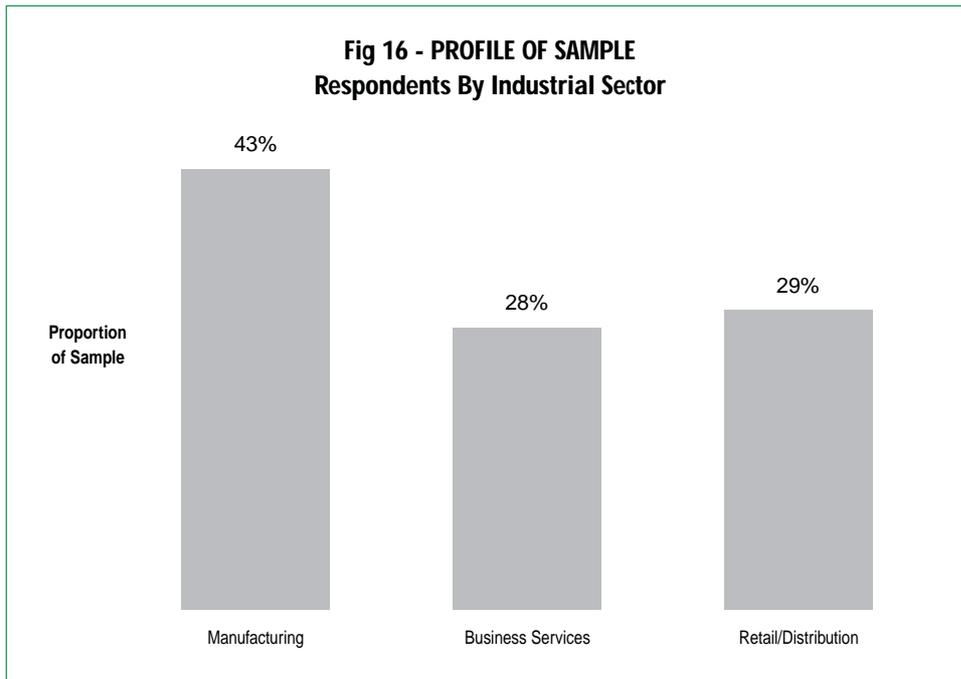
"When times are good, banks are only too willing to lend you money. As soon as times get harder they have a tendency to pull the rug from under your feet."

Software Development & Maintenance

"Money is a business resource that needs managing, just as any other resource type."

RETAIL AND DISTRIBUTION

| | |
|---|--|
| Computer System Reseller | <i>"Clearing banks are obsessed with security rather than looking at the growth potential of the company."</i> |
| Gallery and Crafts | <i>"One problem is the abrupt transition from non-VAT to VAT registration at a fixed figure."</i> |
| Gents Hairdressing | <i>"Do not borrow money !"</i> |
| Hardware and Pet Store | <i>"'Loss of control' is the main barrier to external investors into small businesses. We cannot stand being told how to run our business by an 'outsider', especially if they happen to be right !"</i> |
| Health Foods and Herbal Remedies | <i>"I think banks should clearly give indications of credit line available at yearly manager meeting."</i> |
| Importing of Speciality Foods | <i>"My involvement with bank personnel of the 'small business' sector has shown that they have little cognisance of the problems/needs/pressures of small business, basically they are very large businesses and that is the mind-set they bring to your problem. Other than for transaction business - payments/transfers etc. - our involvement with banks is kept at a long arm's length."</i> |
| Office Supplies & Printing | <i>"The main barrier to finance is unreasonable requirements from banks etc. for personal guarantees from directors."</i> |
| Training of Engineering Skills | <i>"Small companies who can least afford it are paying the same or in most situations more in interest to sources of finance than larger companies. To allow these companies to develop there should be a system for government financed or controlled loans. These should not be restricted to specific areas of low employment."</i> |



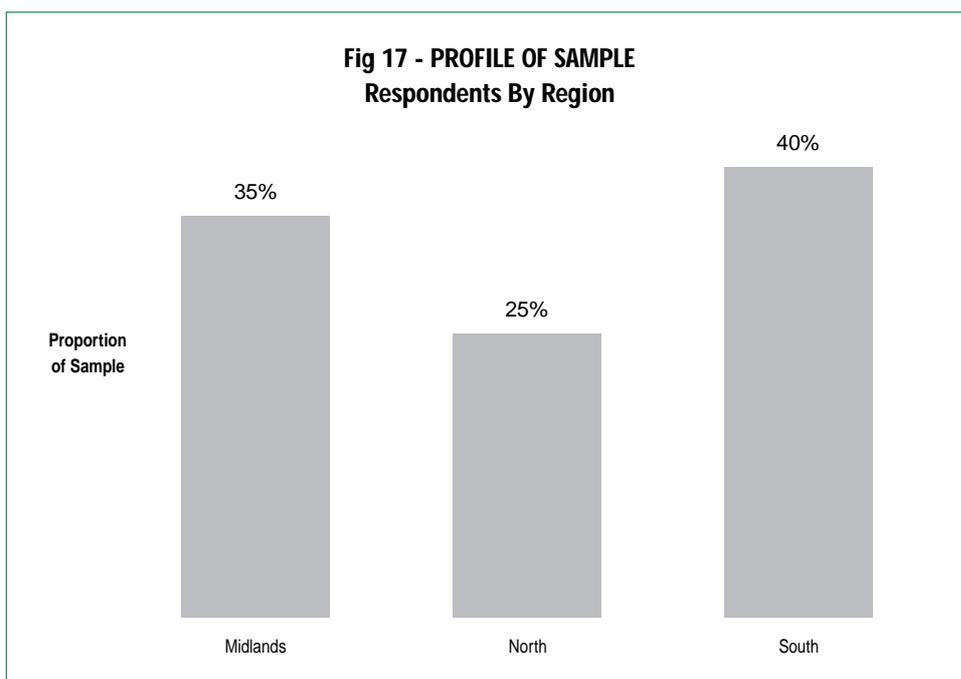
APPENDIX 1 - ADDITIONAL INFORMATION

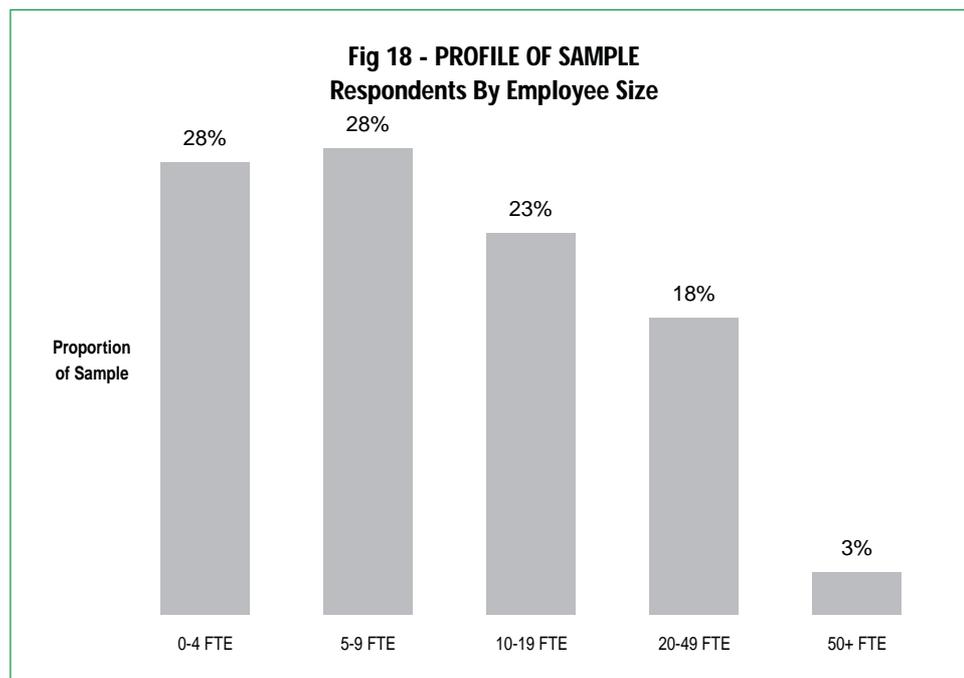
As an aid to the interpretation of the various figures (histograms), we have included some further information about the firms responding to this survey.

The analyses involve key variables, and **industry sector** and **employee size** are those most frequently used as

they are reasonably reliable indicators and less prone to misinterpretation. Other variables have also included **region**, **sales growth**, **respondent age** and **sex**.

Industrial sectors – based on the descriptions supplied by respondents, each firm is coded according to the Standard Industrial Classification (SIC 1980). Firms are then grouped into manufacturing, business services, retail/distribution. From 1996 onwards, firms falling outside these 3





bands – previously classified as ‘other’ – are now allocated to the foregoing sector which offers the closest match.

Regions - firms are also classified according to their physical location, namely, North, Midlands and the South.

Employee size - finally, firms are placed in bands according to the number of employees. Each part-time employee is assumed to be equivalent to 40 per cent of a full-time employee (‘FTE’ = full-time equivalent). All of the surveys to date have received only a small number of responses from firms with 50 or more FTE employees. These responses have been **included** in the breakdowns for the **sectoral** and **regional** analyses, but have been **excluded** as a ‘50+FTE’ band in the **employee-size** analyses (the ‘All’ band in each histogram includes all usable responses regardless). This is because a percentage breakdown band based on just two or three firms may not be representative of this size of business.

Figure axes/scales (histograms) - each figure uses a linear scale, with reference to a common zero axis, e.g. running horizontally across the bottom of each column, as in the figure above.

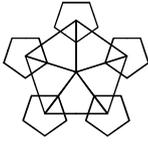
Distribution of firms

The highest proportion of respondents is in manufacturing (43%, previously 42%), followed by retail/distribution (29%, see **Figure 16**). Previously, the samples have contained the largest proportion of firms in business services, but the composition has shifted slightly due to the introduction of additional respondents to the sample late 1998, and again, mid-1999.

In this survey, the Southern region has the largest representation, with 40% of the sample’s respondents (previously 41%, see also **Figure 17**).

Historically, the manufacturing and business services firms in the samples have tended to be larger, in terms of employees, whereas the firms in retailing/ distribution have had fewer full-time equivalent employees. Likewise, the sample has been biased towards the smaller businesses, but since 1999 there has been an increase in the 20-49 FTE firms (**Figure 18**).

As on previous occasions, the sample is predominantly male (84%).



**SMALL
BUSINESS
RESEARCH
TRUST**

Quarterly Small Business Management Report No.30

Sponsored by Lloyds TSB

This questionnaire will take approximately 5-10 minutes to complete – most answers require only a single tick. All information received will be treated in complete confidence. PLEASE DESPATCH AS SOON AS POSSIBLE.

MANAGEMENT ISSUE: Sources of Finance

1 a) Please indicate the number of people working in your business (including yourself):

Full-time : _____ A

Part-time (16 hours/wk or less) : _____ B

b) Your age last birthday:

16-24 years A

25-34 B

35-44 C

45-54 D

55-64 E

65 or over F

c) Your gender:

Male M

Female F

2 Spread of ownership – How many owners/shareholders does your business currently have ? (count each corporate investor as 1 owner)

Just ONE ✓ only

1 owner only A

OR 2 owners B

OR 3 - 5 owners C

OR 6 - 9 owners D

OR 10 or more owners E

3 Sources of finance – Please identify which of the following sources are currently used by your business:

✓ Against all which apply

Bank loan/s A

Bank overdraft B

External equity/capital C

Factoring/Invoice discounting D

Grant aid (government) E

Leasing/Hire purchase F

Owner/s capital - from family/friends G

Owner/s capital - from personal reserves H

Owner/s capital - from remortgaged property I

Retained profits J

Small Business Research Trust, based at the Open University Business School CONFIDENTIAL

4 **Understanding sources of finance – How well do you understand what each type of finance is for and its advantages:**

Just ONE ✓ for each type

| | UNDERSTANDING | | |
|--------------------------------------|--------------------------|--------------------------|----------------------------|
| | Limited | Adequate | Good |
| Bank overdraft | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> A |
| Bank term loan..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> B |
| Factoring/Invoice discounting | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> C |
| Grant aid schemes (government) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> D |
| Leasing/Hire purchase..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> E |
| Share (equity) capital..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> F |
| | 1 | 2 | 3 |

5 **Attitudes towards bank borrowing – Which ONE of the following best describes your view:**

Just ONE ✓ only

It is to be avoided..... A

OR An inescapable fact of business life..... B

OR A business tool as part of cash flow management.. C

OR A resource to be attracted and used to the maximum in growing the business D

6 **Barriers to external equity/investors – Which of the following issues do you think most concern small business owners if faced with selling a stake in their business:**

✓ Against all which apply

Finding/achieving an acceptable 'exit route' for the investor/s A

Loss of control..... B

Problems in evaluating the right investor C

Problems in finding a prospective investor/s..... D

Other (please specify) _____ E

7 **The clearing banks as equity/share investors – Do you think that they should be more active in offering equity finance to small businesses ?**

Just ONE ✓ only

Yes..... A

OR No..... B

OR Don't know C

8 **Delayed payments to your suppliers as a source of finance – How comfortable are you with the idea of delaying the settlement of due accounts:**

Just ONE ✓ only

Comfortable..... A

OR Somewhat comfortable, but with misgivings B

OR Not at all comfortable C

9 **'Sources of finance' – If you have any strong views about the topic, especially if you feel that any aspect is not fully appreciated by important sections of the business community (such as the government help agencies or the financial services sector), then please comment**



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ISSN 0968 - 6444
SB1000

Design by Long Blue Cat
Printed by Regent Graphics