

Financing UK Small and Medium-sized Enterprises

The 2007 Survey

A Report from the Centre for Business Research

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Executive Summary

The 2007 SME Survey

The 2007 survey of UK SME Finances included 2,500 businesses with fewer than 250 employees and was carried out in the Autumn of 2007. The survey took place in a period of decelerating growth of the economy and the emergence of the problems at Northern Rock, but it is unlikely that it has captured any of the consequences of the dramatic changes in banks' lending behaviour that have emerged.

The sample was selected to permit accurate grossing up to the national picture of 4.26 million SMEs. 57% of businesses are sole traders, 34% are companies and 9% are partnerships compared with 66%, 24% and 10% respectively for the previous survey in 2004. The movement towards incorporation is probably due to tax and other changes that have favoured incorporation.

Over 30% of the businesses have been operating for over 15 years, whilst the 17% that have formed within the last two years form the start-up sample that is analysed in depth later in this report. We find that about 17% of the firms are owned, or led, by females; and males and females run a further 10% equally. This suggests little change since the 2004 survey.

The proportion of businesses not using external advice when making financial decisions is 35%, the same as that found for the 2004 survey. Accountants are the most commonly used external source, used by 31% in both 2004 and 2007. The bank manager was given as the answer in only 11% of the cases, down from 16% in 2004. The use of external advice rises with firm size.

Use of External Finance

The proportion of SMEs using external finance has fallen from 81% in 2004 to 69% in 2007 and a higher proportion are using just one product than was found three years earlier. There has been a decline in the use of most forms since 2004. Credit cards and overdrafts remain the most common, but even for these the proportion is about 10 percentage points lower than in 2004. The use of leasing/HP finance has shrunk to the same level of use as commercial loans and mortgages, at just under 20% of firms. The use of other forms of finance remains low.

The proportion of businesses using each form of finance rises with firm size. Firms in deprived areas make lower use of overdrafts, credit cards and leasing/HP. Female owned and led businesses both show a lower recourse to most forms of external finance other than grants, but this turns out to be due to the characteristics of the businesses they run since the difference is not significant when these are taken into account. Super growth firms make greater use of every form of external finance.

The majority of firms stated that there had been no change between 2004 and 2007 in the ease of obtaining finance from each source, but credit card finance and leasing or hire purchase finance were seen as having become easier to obtain. On the other hand, grants were noted as more difficult to get by 18% of the firms.

The market share of the Top 4 banks in the SME sector appears to have fallen modestly from 78% in 2004 to 76% in the 2007 survey. The Top 4 exhibit lower market shares in the deprived areas and amongst super growth firms.

The mean length of relationship with the main financial provider is 12 years and the median is 7 years. The length of the relationship is longer in Agriculture and rises with firm size. About one-third of SMEs benefit from free banking and this is inversely related to firm size. About one-half of the firms do pay charges, but receive interest on their credit balances and this arrangement is more common for larger SMEs.

The average size of SME overdraft facilities is much the same as that found in the 2004 survey. 21% of the overdrafts obtained by our SMEs required some form of security backing. 59% of those obtaining overdrafts had to pay arrangement fees. 56% of those with term loans had to provide some form of security and 64% of them had to pay arrangement fees. Only 2% of the loans were taken out under the auspices of the Government's Small Firms Loan Guarantee.

New Finance

The proportion seeking external finance has fallen from 44% to 36% between 2001-04 and 2004-07. Most sectors show a lower proportion of firms seeking external finance in 2007 than in 2004. The notable exception is Manufacturing in which the proportion has risen from 39% to 45%.

56% of those seeking finance sought new, or extended, overdraft facilities in the last three years compared with 32% in 2001-2004. The proportion seeking leasing/HP has fallen from 39% to 33%. Term loans and mortgages have remained at about 40% of those seeking external funds.

In a multivariate context taking other relevant factors into account, we find:

- the proportion of SMEs seeking finance increases with size;
- Other services and Construction have a significantly lower proportion seeking finance than found for Manufacturing;
- no significant differences across the regions, or between deprived and other areas in the proportion seeking finance;
- super growth firms are more likely to be seeking finance and there are no significant gender differences in finance seeking;
- business improvers are more likely to be seeking finance, as are those using advice from others, and those with a qualified finance manager;
- more profitable companies are less likely to need to seek external funds.

71% of all firms seeking new finance in the previous three years received all that they sought from one source, or another. On the other hand 15% of SMEs received none of the new finance they sought. The mean percentage of funds sought that were obtained was 81%. It ranges from just under 80% for zero employee businesses to over 90% for the largest SME group.

Looking at factors leading to success in raising finance we find:

- the proportion with no success falling and the proportion with 100% success rising with firm size;
- Manufacturing had a worse success rate than the other sectors, Agriculture had a significantly higher success rate;
- no significant differences in success rates across the regions;
- firms with longer track records have greater success, whilst those with business leaders with lower educational qualifications have less success.

For all businesses the highest complete success rates (93%) are found in the two least used sources of new finance – asset-based finance (factoring etc.) and equity. The highest rejection rates are found for overdrafts (75% complete success and 10% outright rejection) and credit cards (70% complete success and 16% outright rejection). Leasing and hire purchase applications are generally successful (88% complete success, but 10% outright rejection). Finally, loans and mortgages exhibit a low outright rejection rate (4%) and a high probability of complete success (85%).

About 29% of businesses that were refused some or all funding said that they always obtained the further funding they needed from another source and a further 18% sometimes found the finance. The most common alternative provider was a different bank (45%), but family and friends also represent a significant proportion (30%).

The mean amount sought was £470,000 compared with £82,000 in the 2004 survey, but there are some large observations since the median is £45,000 for the 2007 survey. The difference in mean compared with the 2004 survey appears to be the average amounts sought by those firms with fewer than fifty employees.

Awareness of capital allowances and tax credits is generally low and their uptake even lower. Incorporated SMEs make more use of capital allowances, 9% of them compared with 5% of all SMEs; but the other two are used by the same proportion of incorporated and non-incorporated SMEs, 2% of them for energy capital allowances and 1% for R&D tax credits.

Rejection, Discouragement and Reluctance

Of those businesses seeking finance, 26% were wholly or partially rejected in 2004, which is somewhat less than the 29% rate in 2007. Smaller businesses and those with unauthorised overdrafts were more likely to have been rejected.

Of those not seeking finance, 62% did not need any finance, 4% were discouraged and 34% did not apply for a variety of other reasons. The latter two categories are combined as the reluctant group and this group is characterised by sole proprietorships and those with less qualified advice.

Female Business Leaders

The comparison between female-led and male-led businesses showed:

- no size difference between male-led and female-led firms that were seeking finance;
- only the East Midlands has a significantly lower proportion of female-led businesses when other factors are taken into account, but the female-led proportion is significantly higher in Northern Ireland amongst SMEs seeking finance;
- in relation to finance seekers, female-led businesses are more likely to benefit from free banking and to seek significantly lower amounts of finance;
- no difference in the percentage of funds obtained;
- considering all SMEs, whether, or not they sought external finance, female-led firms are significantly smaller than male-led firms, contrary to our findings for finance seekers alone;
- no gender effect on either the decision to seek finance, or for the intention to grow the business.

Start-up Businesses

Start-up businesses are defined as firms up to two years old. There is a higher proportion of start-ups amongst sole proprietorships than other business forms, possibly suggesting that other forms may first start their business life as sole proprietors, or that the rate of failure of sole proprietors is higher than other legal forms.

The start-up firms were asked how much money was needed to set up their business. The weighted mean was £31,000, but the median was £7,500. It is clear that personal savings dominate with bank loans and loans from friends and families next, but a long way behind.

A comparison of start-ups with firms at least ten years old showed:

- that start-ups are significantly smaller than old SMEs;
- no strong sectoral pattern for start-ups, with the only exception being Agriculture where there are fewer start-ups;
- no significant differences across the regions;
- the business owner of a start-up is younger;
- start-ups have higher growth ambitions;
- some evidence that start-ups are more likely to be female-led;
- start-up SMEs are less likely to be using each form of finance;
- including only firms that sought finance we find a significantly lower proportion of start-ups in the deprived areas;
- when all of these factors are taken into account, there is no difference in the additional finance sought by start-ups, but we find some evidence that start-ups are somewhat less successful in obtaining all of the finance they sought.

Super Growth Businesses

Super growth businesses are defined here as those that reported that they had experienced turnover growth of 30% or more in each of the previous three years and who also reported that they intended to grow in the next three years. Super growth businesses are as likely to be located in deprived areas as elsewhere; and they are more likely to be limited companies and to have younger owners with less business experience, but there is no difference in the gender of ownership.

Super growth firms were more likely to be seeking finance than other small businesses (50% against 33%). The median amount of new finance sought was higher in super growers (£30k compared to £17k).

Comparison of super growers with other firms shows:

- that size is positively related to the probability of being a super grower;
- similarly, business age has a negative impact in the sense that businesses over ten years old are less likely to be growth businesses than those aged 2-9 years old;
- businesses that have improved their business operations and those which have a financially qualified manager are also statistically significantly more likely to be a super growth firm;

Deprivation

To group the firms into more or less deprived areas, we choose to concentrate on the 15% most deprived areas and compare them with the remaining areas. Firms in the most deprived areas are in general using less of nearly every source of finance. The average holdings on deposits and the level of overdrafts are lower in the deprived areas.

There was virtually no difference in the percentage of overdrafts or loans and mortgages that required security between the two areas. Arrangement fees tended to be paid less often in the most deprived areas. The average length of loan was the same in both sets of businesses.

Firms in the most deprived areas are less likely to be seeking finance than in the other areas. Thus, 29% in the deprived areas sought finance whereas 37% did in the other areas. Firms in deprived areas were somewhat more likely to be reluctant to apply for overdraft, or leasing and HP finance, but less likely to be reluctant to apply for term loans. Firms in the deprived areas were less likely to suffer outright or partial rejection overall (24% compared with 30%).

Switching Banks

In 2007 4% of the businesses switched main bank in the previous year compared to 2% in 2004. But a much higher proportion (17%) had considered changing banks, or switching part of their business to another financial provider.

Two-thirds of businesses think it is unlikely that they will change banks in the foreseeable future. Just over a quarter would consider changing banks if they were approached and only 6% are actually considering changing banks. There seems to have been little change between 2004 and 2007 in the percentages of companies considering changing banks.

The most important reason offered for changing main bank accounts by those firms who changed their main bank was bank charges with nearly 40% of firms offering this as the reason they switched. This was followed by poor service and then by a range of other factors of much lower importance.

57% of those who switched banks found the process to be extremely easy and a further 32% scored it as easy. Only 11% thought the process was extremely difficult; we find that the main reason given by nearly half of the firms not switching was that they expected too much hassle.

To allow for the impact of correlations between the variables we carried out a multivariate probit regression analysis of the likelihood of switching with the following results:

- switching is not related to the size of business;
- there are no statistically significant regional differences;
- older businesses are much less likely to switch;
- businesses with a financially qualified manager are more likely to switch banks and the same is true for those businesses that report using accountants for business advice;
- there is no relationship between changing banks and having been rejected when seeking finance.

1 The SME Finances Survey 2007

This report is divided into three sections. In the first section, this chapter sets the background to the survey and our methodology. In the next chapter we set the context of the analysis by examining the characteristics of the businesses and their owners and leaders. Section II forms the main body of the report describing in depth the financing of SMEs in the UK. Section III then explores topics of special interest.

1.1 Access to Finance by SMEs: Background and Policy Framework

There is a long literature which sets out in principle the reasons why small and medium-sized enterprises may face difficulty in accessing finance, both in terms of loans (short and long) and equity.

In relation to debt finance the principal reason why in theory small businesses may face difficulties is that the lenders find it difficult to distinguish good borrowers from bad ones. This arises essentially from the costs of obtaining the full information which a loan provider may feel is appropriate on many thousands of individual SMEs. The lenders in these circumstances will typically price for average degrees of risks across classes of business rather than on an individual basis. This will lead to a problem insofar as those businesses whose private knowledge leads them to believe they are better than average will tend to find the loans unattractively priced, whereas those who believe they are worse than average will not do so.

The result is the well-known 'market for lemons' problem in which there is a preponderance of "bad" lenders who remain in the market, whilst the "good" withdraw. In these circumstances it is argued pricing for risk or degrees of "badness" via the interest rate will not work. Instead a variety of alternatives will be sought to ration the finance available. Insofar as this leads to reliance, for instance, on the availability of collateral to back applications for funding, then asset rich businesses will find it easier to obtain funding than those who do not have such assets to pledge.

Smaller and younger businesses without such asset-backing will therefore suffer in the supply of finance. More generally, insofar as the amount of information available to assess risk is greater for more established businesses, then in general younger businesses may also find it more difficult to obtain finance. To the extent that established relationships between lenders and borrowers alleviate some of the informational problems, then once again older businesses will find, other things being equal, that it is easier for them to access finance than younger businesses. Once again, new businesses may be disadvantaged in these kinds of markets.

The structure of the UK banking sector may, it is argued, have exacerbated problems in debt finance and led to a lack of competition in the supply of small business services, including financial services in particular. The result, it has been argued, is a lack of true competitive choice for small firms and constraints on them switching banks. A number of investigations by the Competition Commission and various committees, including the Cruickshank Review, have been concerned with these issues and several important actions have been taken and undertakings have been given by the large clearing banks in relation to the operation of these markets.

Although these arguments are well-established in principle, it is clear that in practice banks have evolved over time, and in the face of potential criticisms of their lending

practices, have developed a variety of ways of overcoming these problems by a mixture of interest rate and collateral combinations, and by developing ways of monitoring the financial behaviour of their client base. Moreover, in the UK as elsewhere, a wide range of government policy initiatives have been adopted to address these issues, including for instance the Small Firms' Loan Guarantee.

In relation to equity, a somewhat different set of issues arises. In this case, a much more important role is played by a variety of fixed costs or indivisibility problems which may make access to external equity more costly per unit of funding raised for small than for larger businesses. These issues relate, for example, to the due diligence costs and the extent to which intermediary business engaged in information gathering and disseminating will find it worthwhile to provide the rich information that exists for larger businesses in the small business context. Moreover, in relation to smaller businesses who are at the early stages of developing innovative activities linked to new scientific and technological breakthroughs, there is a general problem of access to risk capital.

This arises in particular in relation to the relatively high rates of failure that may be expected in portfolios of small business companies specialising in technology-based activities and the consequent difficulties of obtaining sufficient supplies of high-risk and, in particular, venture capital. As with the lending market failures identified earlier, it is also the case that considerable policy effort has been made in the UK and elsewhere to address these issues. Thus there have been significant tax incentives offered to stimulate venture capital investment. These include, for example, the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) schemes and the wider range of policies in relation to the taxation of capital gains.

To the extent that financing difficulties of the kinds identified earlier have also been associated with the need to meet government objectives in relation to promoting enterprise, for instance, amongst ethnic minorities, women, or in relatively deprived areas, then a range of policy measures have also been adopted to promote the resolution of financial market failures in those particular contexts.

The result of an assessment of these potential failures in the supply of finance has been the introduction of a very wide range of programmes of financial support. The magnitude of this support for SME finance is considerable. Thus it has been estimated that since 1981 around 100,000 loans valued at £5 billion have been guaranteed through the Small Firms' Loan Guarantee Scheme, whilst the EIS is estimated to have raised over £6.1 billion for investments in 14,000 small high risk companies and the VCT have invested £3.2 billion in over 1,500 companies. These later two schemes are specifically focused at the small and high-risk end of the small business market (HM Treasury – BERR (2008)).

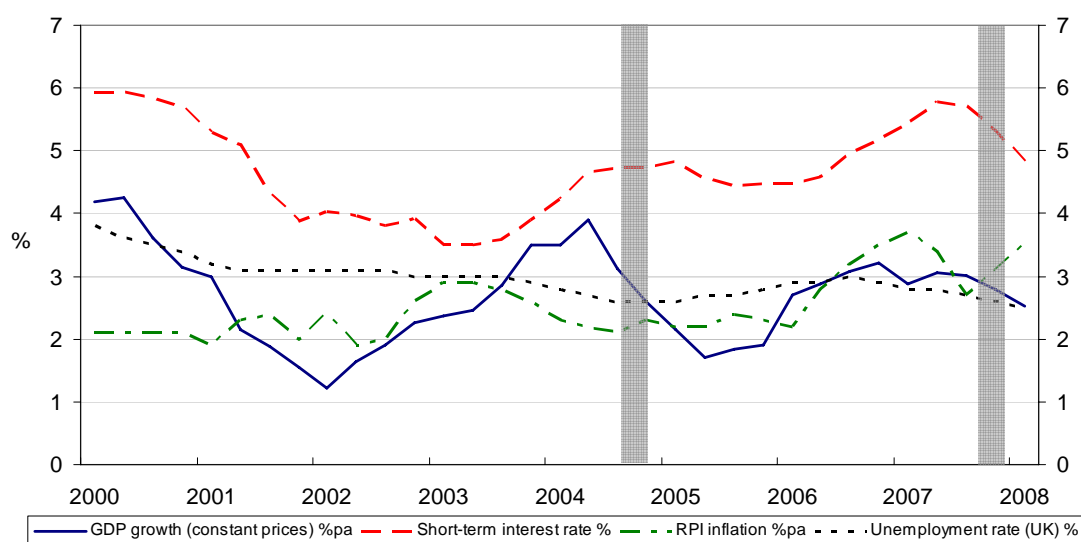
At the same time as, and possibly, as a result of policy intervention, there is considerable evidence to suggest that in the last decade and a half, the impact of market failures in relation to the provision of finance has fallen. Nonetheless, concern for small and medium-sized finance and its impact on enterprise remain at the heart of government enterprise policy. Thus, for instance, in the most recent restatement of enterprise policy following the reorganisation of the DTI into the DIUS and BERR, the commitment to existing policies was reaffirmed. There is a proposal to strengthen the Small Firms' Loan Guarantee scheme, in particular to extend the scheme to businesses with growth ambitions that are more than five years old, including those that have changed ownership.

There are also proposals to commit new capital to a fund focused primarily on investing in women-led businesses and proposals to stimulate mezzanine finance through the Enterprise Capital Funds' structure and further rounds of the Enterprise Capital Funds are to be launched. In relation to factoring and invoice discounting the government is also committed to the removal of clauses in public procurement contracts that might prevent the use of this form of finance for SMEs. In relation to gender-related market failures, there is also a proposal to develop a national framework for the delivery of investment readiness support which includes targeted activities in relation to underrepresented groups such as women (HM Treasury – BERR (2008))¹.

1.2 Macro-Economic Context

The current survey of finance for small and medium-sized enterprises is the second in a series which began in 2004. In interpreting the results of the latest survey in comparison with those of the earlier period it is important to bear in mind the macro-economic circumstances in which the surveys were conducted. Chart 1.2.1 provides an overview of macro-economic trends in terms of four variables; the rate of growth in real GDP per annum; short-term interest rates; the annual rate of inflation as measured by the retail price index; and the percentage rate of unemployment.

Chart 1.2.1 Economic indicators and the surveys of finance for small and medium-sized enterprises 2004 and 2007



If we consider GDP growth, it is apparent that both surveys took place in a period of decelerating growth of GDP, although the deceleration was relatively mild in both

¹ References: HM Treasury – BERR (2008) *Enterprise: Unlocking the UK's Talent*, HM Treasury and BERR, London, March.

cases. The rates of unemployment were similar in both periods, but were falling slightly in the more recent survey period and had been relatively stable at the time of the 2004 survey. Inflation was both higher and rising at the date of the second survey. Equally, although interest rates were on a downward trend at the time of the 2007 survey, they were at substantially higher levels than those governing conditions when the 2004 survey was conducted.

The position of SMEs in the third quarter of 2007 when the survey began was summarised in The British Chambers of Commerce Quarterly Economic Survey:

The Q3 2007 results are mixed, but they signal an overall weakening in economic performance. Many manufacturing balances are strong, but most service sector balances recorded disappointing declines. The UK economy is set to slow down markedly, and small firms could face problems. Lower interest rates will clearly be needed; but additional measures will be required, to ease tax and regulatory burdens facing businesses.

The most relevant indicator in relation to finance for small and medium-sized enterprises is the somewhat higher level of interest rates in the latter period. One might expect more dissatisfaction with access to finance and the terms on which it is available to be registered in the latest survey other things being equal than in the course of the first survey. Equally, one might expect little impact on, for instance, the demand for new finance, given the relative similarity of growth rates and unemployment levels between the two periods.

1.3 The Financial Environment since the Survey

It is important to recognise that the macroeconomic environment has changed significantly in the nine months since the survey was carried out. Although the problems with Northern Rock were emerging at the time of the survey, the scale of the crisis created by the credit crunch was not apparent. Indeed, since there had not yet been at that time the dramatic changes in banks' lending behaviour that have since emerged, it is unlikely that our survey of the three years up until the early Autumn of 2007 has captured any of its consequences. The scale of the change in the environment facing SMEs can be seen in The British Chambers of Commerce Quarterly Economic Survey in the second quarter of 2008:

The Q2 QES results signal a menacing deterioration in UK prospects. Most manufacturing balances and virtually all service sector balances, worsened. For the first time in many years, the vital balances for domestic sales and orders, and for cashflow, have moved into negative territory for both manufacturing and services, underlining serious risks of recession. The threats are amplified by plunging confidence balances across both sectors.

The implications of these changes for this report must be recognised. The contents of Chapters 3 and 4 that make comparisons with 2004 must be understood to be just that. These comparisons are made between two points of time in the recent past and carry no implications for the position of SMEs today. On the other hand, there is no reason to believe that the credit crunch has impacted differentially on the types of businesses that are compared in Chapters 5-10.

1.4 Survey Methodology

This section is drawn from the report provided by Continental Research who carried out the 2007 survey. In particular, it describes the design of the survey instrument, the choice of sampling frame and the execution of the survey.

Amendments made to the 2004 questionnaire pre-pilot

One of the important objectives of the 2007 survey was to provide an update on the survey findings in 2004, and thus any changes to the questionnaire had to be considered in the context of continuing to provide comparability. That said, there were some new issues that the Consortium wished to include and some areas where it was felt that the questions had not generated sufficiently robust / interesting responses in 2004, or where the information was available elsewhere.

In the event, more changes were made to the questionnaire between the pilot and the main stage than before the pilot, but the key changes made for the pilot were the inclusion of more questions on the business context and on switching banks.

One of the main changes for 2007 was that all interviews were conducted in one stage, rather than some being conducted in two stages as in 2004. It was felt that it was not necessary to recruit respondents in advance and that the majority would be able to answer questions put to them, so the original screening questions were absorbed into a new single questionnaire.

The screening criteria used in 2007 were the same as in 2004:

- Respondent was the owner or the person who makes financial decisions
- The business was not a majority owned subsidiary of another business
- It was not owned by an agency of local / national government
- It was not “not for profit”
- It had less than 250 employees
- New for 2007 a final check was made that turnover was less than £35 million

The pilot

The pilot was conducted on August 7th and 8th 2007, with 33 interviews completed. 67 were started – 13 people dropped out because they were subsidiaries, otherwise there was no single point at which a lot of people dropped out – 37 made it to Q62 (start of products section) and 33 answered all questions.

Interviews came from a spread of companies by size (most had 2-49 employees but there were some interviews in all size bands), with most being limited companies, and a spread by main bank was ensured.

As anticipated prior to the pilot, the interviews length was too long - the average interview length was 32 minutes, and the length varied from the shortest at 21 minutes to the longest at 38 minutes. Apart from the overall length, the pilot raised issues with some specific questions.

Subsequent questionnaire changes

Post-pilot, the Consortium met to discuss deletions to the questionnaire to bring the length to the budget of 25 minutes on average. Changes were also made to the

question order to improve the flow of the questioning. The final questionnaire structure was as follows: It started with business demographics (for quotas and screening) and respondent demographics, then covered reasons for start up (amongst businesses less than 2 years old), providers of finance and switching.

The product sections were then re-organised so that respondents first answered about their current borrowings across overdrafts, loans etc. Once all current financing had been discussed, they were asked about all the facilities they had applied for in the previous 3 years, and whether these had been declined or only met in part. Where a decline or partial rejection had occurred, respondents were then asked in more detail about each product this related to. The survey ended with some general business questions, and financial details for the current trading year and 3 years previously.

The sample structure

The survey was conducted amongst 2,514 small and medium sized businesses (up to 250 employees) in the private sector in the UK. Public sector, and not for profit organisations were excluded, together with Financial Services, Mining and Quarrying, Electricity, Gas and Water Supply sectors. Fieldwork was conducted by telephone by Continental Research, an independent market research company, at its telephone centre in central London between 17th September and 15th November 2007.

As in 2004, quotas were set by size (number of employees), and within size by sector (from sample) and region (from sample). Larger businesses and smaller sectors and regions were over-sampled relative to the proportion in the market. Separate quotas were also set for Starts and for businesses trading in deprived areas.

The achieved sample is shown below in Tables 1.4.1 and 1.4.2 split by size, sector and region:

	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
<i>Target</i>	<i>2,500</i>	<i>550</i>	<i>750</i>	<i>750</i>	<i>450</i>
AB Agriculture, hunting and forestry, fishing	192	58	61	60	13
D Manufacturing	236	53	61	70	52
F Construction	495	118	157	150	70
G Wholesale / retail	280	53	80	80	67
H Hotels and restaurants	205	25	62	69	49
I Transport, storage and communication	220	48	57	74	41
K Real estate, renting & business activities	419	80	161	118	60
N Health and social work	214	51	55	68	40
O Other community, social and personal service activities	253	64	62	67	60
Total	2,514	550	756	756	452

Table 1.4.2

	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
London	228	47	63	64	54
South East	285	61	85	85	54
South West	231	57	67	73	34
East	207	41	69	69	28
East Midlands	210	42	67	55	46
North East	166	40	51	53	22
North West	221	56	69	60	36
West Midlands	218	45	65	71	37
Yorkshire and Humber	221	51	66	58	46
Scotland	197	44	59	62	32
Wales	168	33	52	55	28
Northern Ireland	162	33	43	51	35
Total	2,514	550	756	756	452

277 interviews were conducted with businesses less than 2 years old and 558 with businesses in the 15% most deprived postcodes.

Fieldwork report

A sample breakdown is provided in Table 1.4.3. In 2004 the response rate for the two stage survey was 9% and for the one stage survey (amongst the smallest businesses) 18%. By comparison the response rate this time is 10%.

Table 1.4.3

	Total	% in scope of study	% in scope of fieldwork
Total amount of sample	82,292		
Another company owns 50%+	631		
Owned by agency of local or national government	183		
Not for profit	408		
250+ employees	107		
Turnover £35m+	49		
Total ineligible	1,378		
Total in scope of study	80,914	100%	
General call back	7,562	9%	
Unable to reach respondent during survey	35,004	43%	
Unobtainable number	5,138	7%	
Out of quota	8,340	10%	
Total invalid cases	13,478	17%	
In scope of fieldwork	24,870	31%	100%
Interviews achieved	2,514	3%	10%
Refusals	20,292	25%	82%
Incompletes	2,064	3%	8%

Online follow up

One of the main changes for the 2007 survey was that all respondents were interviewed in one call, rather than being recruited and sent a pro-forma prior to interview. If a respondent answered "Don't Know" to two or more questions (30% of those interviewed) they were invited to take part in the online survey. Answers were incorporated into the main data file.

Weighting

As in 2003, weighting was applied by size (number of employees), sector and region as shown in Tables 1.4.4 and 1.4.5 below:

Table 1.4.4		
	% of total interviews	% of weighted total
<i>Total</i>	<i>2,514</i>	<i>4,256,340</i>
AB Agriculture, hunting and forestry, fishing		
0 emps	2.30%	2.88%
1-9 emps	2.42%	1.24%
10-49 emps	2.38%	0.07%
50-249 emps	0.52%	0.01%
D Manufacturing		
0 emps	2.11%	5.05%
1-9 emps	2.42%	1.79%
10-49 emps	2.78%	0.62%
50-249 emps	2.06%	0.16%
F Construction		
0 emps	4.69%	18.66%
1-9 emps	6.23%	2.55%
10-49 emps	5.96%	0.36%
50-249 emps	2.78%	0.05%
G Wholesale / retail		
0 emps	2.11%	7.70%
1-9 emps	3.18%	5.05%
10-49 emps	3.22%	0.77%
50-249 emps	2.66%	0.11%
H Hotels and restaurants		
0 emps	0.99%	0.52%
1-9 emps	2.46%	2.31%
10-49 emps	2.74%	0.39%
50-249 emps	1.95%	0.05%
I Transport, storage and communication		
0 emps	1.91%	5.33%
1-9 emps	2.26%	0.84%
10-49 emps	2.94%	0.18%
50-249 emps	1.63%	0.03%

Table 1.4.4 cont.

	% of total interviews	% of weighted total
<i>Total</i>	<i>2,514</i>	<i>4,256,340</i>
K Real estate, renting & business activities		
0 emps	3.18%	18.55%
1-9 emps	6.39%	6.62%
10-49 emps	4.69%	0.75%
50-249 emps	2.38%	0.12%
N Health and social work		
0 emps	2.03%	4.61%
1-9 emps	2.19%	0.71%
10-49 emps	2.74%	0.42%
50-249 emps	1.59%	0.05%
O Other community, social and personal service activities		
0 emps	2.54%	9.33%
1-9 emps	2.46%	1.90%
10-49 emps	2.70%	0.20%
50-249 emps	2.38%	0.02%

Table 1.4.5

	% of total interviews	% of weighted total
London	9.09%	15.56%
South East	11.32%	16.80%
East	8.22%	10.49%
South West	9.18%	9.62%
West Midlands	8.66%	8.14%
East Midlands	8.38%	6.53%
Yorkshire and Humber	8.78%	7.23%
North West	8.79%	10.07%
North East	6.60%	2.50%
Wales	6.67%	4.04%
Scotland	7.83%	6.37%
Northern Ireland	6.48%	2.65%

1.5 Analysis Methodology

The analysis in each chapter in Sections II and III has a common structure. For each variable of interest, the data are divided into the following standard classifications.

Employment size bands: zero employees, micro (1-9 employees); small (10-49 employees) and medium (50-249 employees)

Turnover size bands: <£50k; £50k - £0.5m, £0.5m - £1m; and £1m or more

Industry: Agriculture; Manufacturing; Construction; Distribution (wholesale & retail); and the Services sector (further split into Business services and Other services in the multivariate analysis).

Female ownership and female leadership: in both cases we allowed for ownership or leadership that was equal, giving three categories – female, male and equal.

Deprived area – defined as the 15% most deprived areas – see Chapter 9 for further details. Northern Ireland was not part of this classification, but to enable Northern Ireland to be included in our multivariate analysis, each firm there was deemed to not be operating in a deprived area.

Super growth firms - businesses that both grew by 30% or more in each of the previous years covered by the survey and who also intend to grow in the next three years.

Although regional cuts were performed for each variable, they are not reported in the tables since they could be misleading. It is known that regional differences can often be attributed to size and sectoral differences across the regions. For this reason, the regional effects are assessed by the use of dummy variables in a multivariate context. For example, we find 16% of businesses in the West Midlands have female leadership compared with 25% of businesses in the South East, but then the latter region has a higher proportion of businesses in the Services sectors. Since female business leaders are more prevalent in the Services sectors, the regional gender difference may be attributed to a sectoral effect, or a regional effect, or both. This can only be tested in a multivariate context and the results of this test may be found in Chapter 6.

The previous section described how the dataset is weighted to the national SME population. Before doing this, the problem of extreme values in the data had to be tackled. It was decided to winsorise the largest values of those variables exhibiting extreme values by taking the largest 0.5% of the observations and giving them the value of the next largest observation for that variable². Only in the case of profits, was the lower end of the distribution also winsorised.

The final part of each chapter in Sections II and III includes some multivariate analysis. We have resisted carrying out statistical significance testing of each of the univariate analyses because many of the findings would yield spurious correlations, as was mentioned above when discussing the regional splits. Instead, in each chapter we have brought together and challenged the findings from univariate work by subjecting them to univariate analysis.

Whilst we believe that this is a useful addition to the report, it must be recognised that these analyses are preliminary findings. We invite other researchers to join us in taking this work forward. In particular, our concern about the impact of extreme values on weighting for multivariate analysis, led us here to perform the analysis only on unweighted data.

² If there were between 500 and 1,500 observations for a particular variable the largest 1% were winsorised and variables with fewer than 500 observations the largest 2% were winsorised.

Executive Summary

- *This report is divided into three sections. In the first section, this chapter sets the background to the survey and our methodology. In the next chapter we set the context of the analysis by examining the characteristics of the businesses and their owners and leaders. Section II forms the main body of the report describing in depth the financing of SMEs in the UK. Section III then explores topics of special interest.*
- *The report begins with a review of the reasons why small and medium-sized enterprises may face difficulty in accessing finance, both in terms of loans (short and long) and equity. We argue that in practice banks have evolved over time, and in the face of potential criticisms of their lending practices, have developed a variety of ways of overcoming these problems by a mixture of interest rate and collateral combinations, and by developing ways of monitoring the financial behaviour of their client base. Moreover, in the UK as elsewhere, a wide range of government policy initiatives has been adopted to address these issues.*
- *The current survey of finance for small and medium-sized enterprises is the second in a series which began in 2004. In interpreting the results of the latest survey in comparison with those of the earlier period it is important to bear in mind the macro-economic circumstances in which the surveys were conducted.*
- *Both surveys took place in a period of decelerating growth of GDP, although the deceleration was relatively mild in both cases. The rates of unemployment were similar in both periods, but were falling slightly in the more recent survey period and had been relatively stable at the time of the 2004 survey. Inflation was both higher and rising at the date of the second survey. Equally, although interest rates were on a downward trend at the time of the 2007 survey, they were at substantially higher levels than those governing conditions when the 2004 survey was conducted.*
- *Although the problems with Northern Rock were emerging at the time of the survey in the Autumn of 2007, the scale of the crisis created by the credit crunch was not apparent. Indeed, since there had not yet been at that time the dramatic changes in banks' lending behaviour that have since emerged, it is unlikely that our survey has captured any of its consequences. The implications of these changes for this report must be recognised.*
- *The analysis in each chapter in Sections II and III has a common structure. For each variable of interest, the data are divided into a number of standard classifications that were described above. The findings are scaled up to represent the national picture.*
- *The final part of each chapter in Sections II and III includes some multivariate analysis. We have resisted carrying out statistical significance testing of each of the univariate analyses because many of the findings would yield spurious correlations. Instead, in each chapter we have brought together and challenged the findings from univariate work by subjecting them to multivariate analysis. This form of statistical analysis allows us to determine which of all the relevant factors are significant in explaining the survey results.*

2 The Business Characteristics of UK SMEs

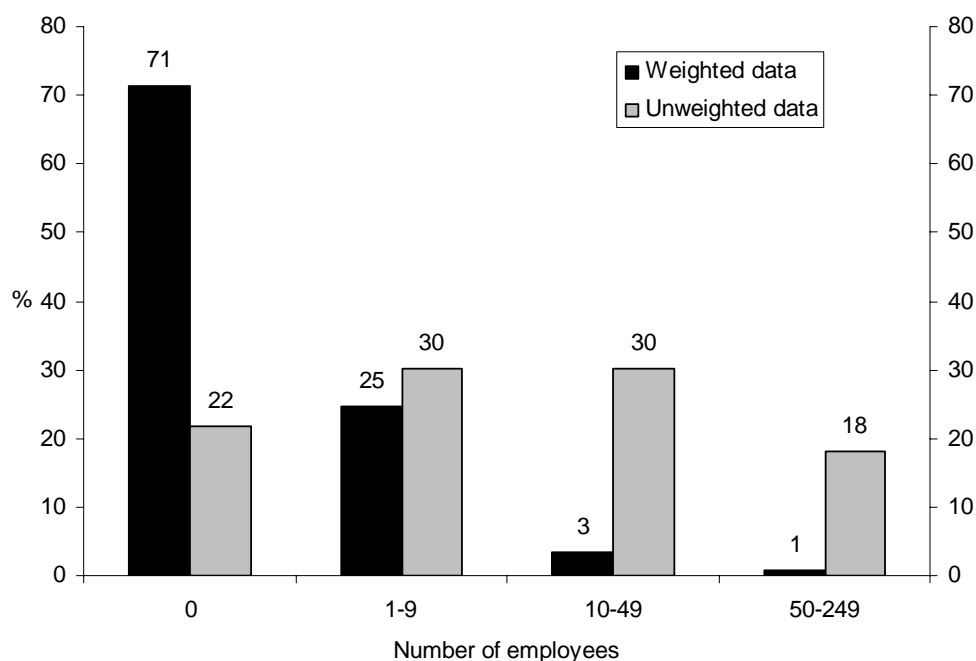
The purpose of this chapter is to look at the characteristics of the survey sample and to set them in the context of the UK SME sector. It also examines the people who own and run these businesses, their competences and ambitions and the problems their businesses face. In general, the tables and charts present information that has been grossed up to the whole UK SME population using the weighting methodology described in the previous chapter. The analysis of business characteristics in the next section also explores the inter-connection between size, sector and region. These relationships must be kept in mind when looking at findings based on just one of these variables.

2.1 Business Characteristics

Size

We begin our summary of the sample's characteristics by examining its employment size distribution. Chart 2.1.1 shows this for both the sample itself (unweighted) and for the whole UK SME sector (weighted). The black bars reveal the numerical dominance of zero employee businesses and the skewed distribution of firms by size even within the SME sector. The chart also shows the sample distribution which reflects the deliberate over-sampling amongst the larger size groups.

Chart 2.1.1: Business size distribution (employees)

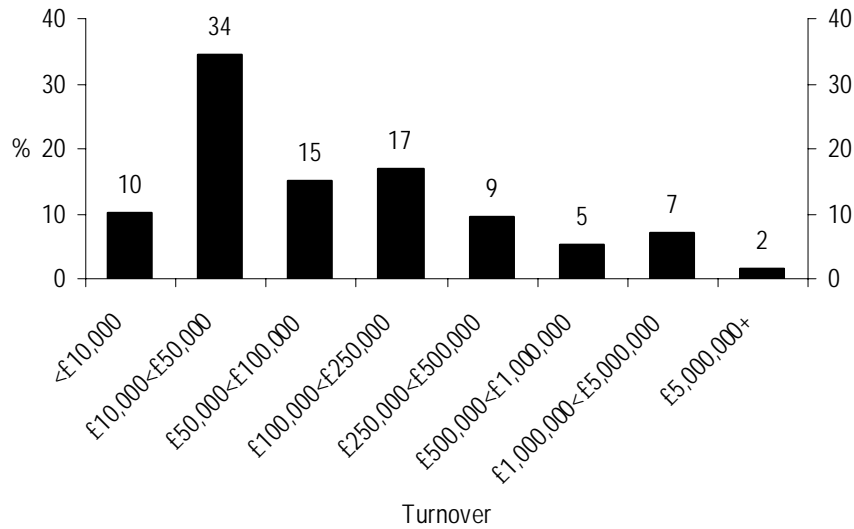


Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

Charts 2.1.2 and 2.1.3 present the weighted size distributions of the firms in terms of sales and profit margin. The typical SME has annual sales of £10k – 50k. At the

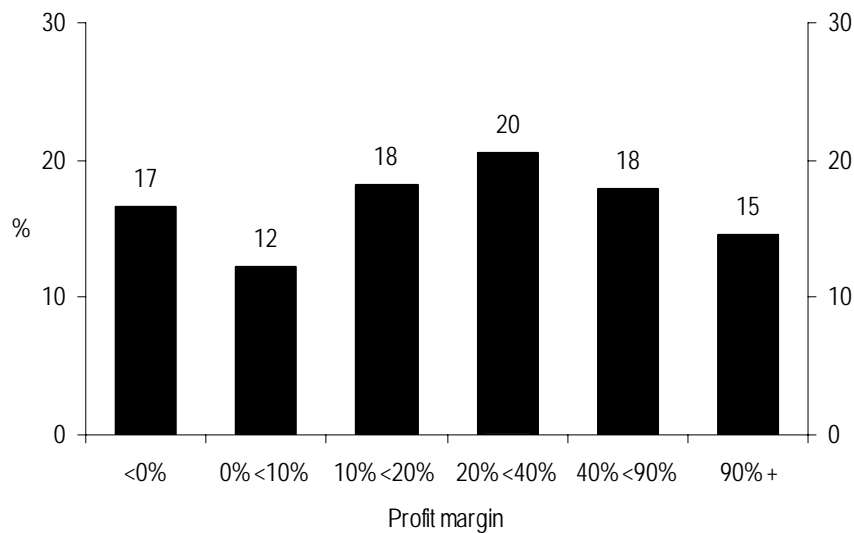
extremes of the distribution 10% have sales of less than £10k and 14% have sales in excess of £500k. In Chart 2.1.3 we see that 17% of SMEs are unprofitable and this is associated with the high rate of business failure in the SME sector. The typical profit margin (profits divided by sales) is 20-40%.

Chart 2.1.2: Business size distribution (sales)



Base: All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026)

Chart 2.1.3: Business size distribution (profit margin)



Base: All businesses reporting profit margin: n=2,723,482 (Unweighted: n=1,574)

When size is measured by total assets we find that about half of the businesses have assets less than £10k and about three-quarters have less than £50k. At the other end of the scale 2% have assets in excess of £5m.

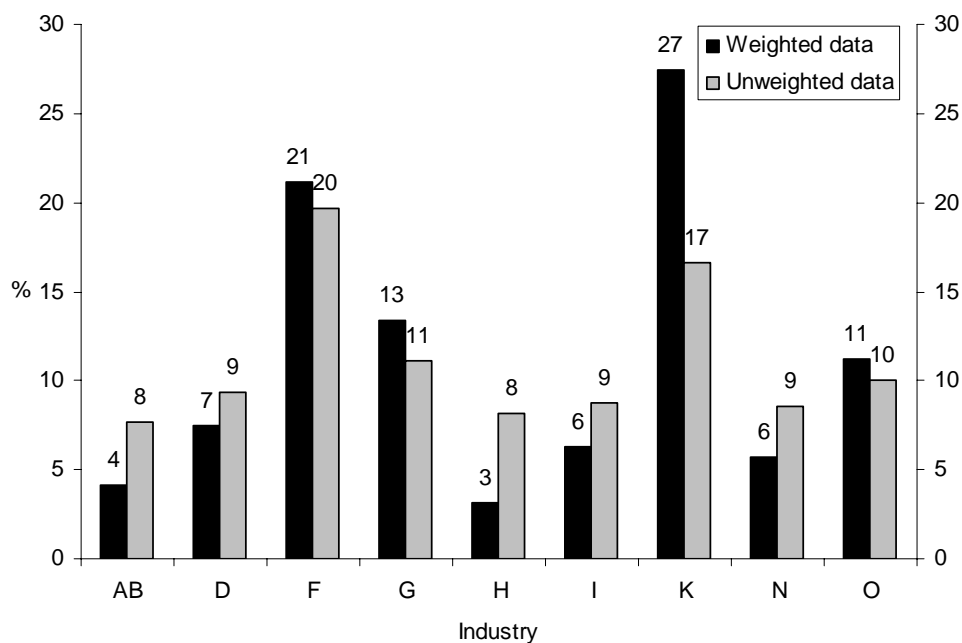
Sector and Region

The other two bases used for weighting the sample are sector and region and these are shown in the next two charts. Chart 2.1.4 shows the distribution of businesses by sector for those sectors included in the survey. It also shows the deliberate under-sampling of those sectors with high proportions of firms and the over-sampling of firms from the smaller sectors. This was designed to achieve sufficient observations in each size-sector combination to permit grossing up the findings to the national population.

Chart 2.1.5 shows that the achieved sample was also more evenly distributed across the regions than is the actual distribution of SMEs across the regions. This was done to permit some regional analysis of the survey findings that are presented throughout the report.

Of course, the size distribution and industrial composition of SMEs differ across regions. The size distribution of firms also differs across industrial sectors. These effects are explored in the following tables.

Chart 2.1.4: Distribution of businesses by industry

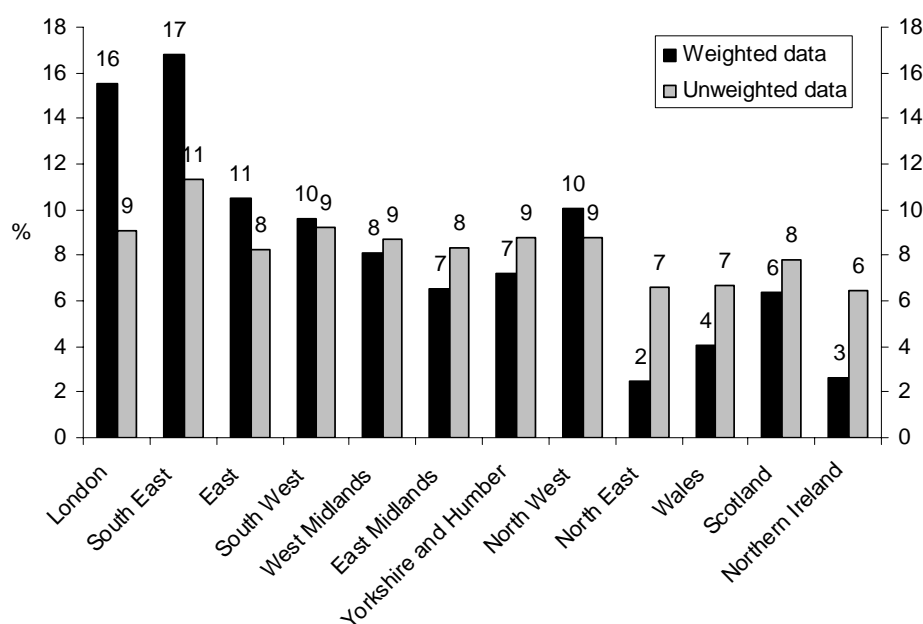


AB: Agriculture, hunting, forestry and fishing
 D: Manufacturing
 F: Construction
 G: Wholesale/retail
 H: Hotels and restaurants

I: Transport, storage and communication
 K: Real estate, renting and business activities
 N: Health and social work
 O: Other community, social and personal service activities

Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

Chart 2.1.5: Distribution of businesses by region



Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

Inter-relationships between Size, Sector and Region

The following table is representative of many throughout the report. It takes a variable of interest, in this case employment size, and displays the findings in columns, with each group of rows giving the results for each size group, sector and region.

Although the findings are presented for these separate classifications, it must be remembered that they are not independent of each other. Thus, in interpreting the findings for a sector, it is necessary to bear in mind the size distribution for that sector. The next three tables presented below allow us to recognise these inter-dependencies when interpreting the results that follow.

Table 2.1.1 shows the expected strong association between the firm's number of employees and its annual sales. Manufacturing has the highest proportion of larger SMEs with 11% with ten or more employees, but it is in the Distribution sector that the lowest proportion, 57%, of zero employee businesses is found. Construction is dominated by very small businesses amongst its SMEs; 86% have no employees and 98% have less than ten employees.

The proportion of SMEs with ten or more employees is very similar across the regions. Zero employee businesses are least common in the West Midlands and the East of England.

Table 2.1.1: Survey population distribution: turnover, industry and region by employment

Category	Number of employees			
	0	1-9	10-49	50-249
Turnover(a)				
Less than £50,000	57%	17%	2%	1%
£50,000-£499,999	38%	56%	19%	6%
£500,000-£999,999	1%	14%	21%	6%
£1,000,000+	4%	12%	58%	88%
Industry(b)				
Agriculture	69%	30%	2%	0%
Manufacturing	66%	23%	8%	3%
Construction	86%	12%	2%	0%
Wholesale/retail	57%	37%	5%	1%
Service sectors	70%	26%	3%	1%
Region(b)				
London	72%	24%	4%	1%
South East	72%	24%	4%	1%
East	66%	30%	3%	1%
South West	73%	23%	3%	1%
West Midlands	66%	29%	4%	1%
East Midlands	73%	23%	3%	1%
Yorkshire and Humber	74%	22%	3%	1%
North West	74%	22%	3%	1%
North East	72%	24%	4%	1%
Wales	74%	22%	3%	1%
Scotland	71%	25%	3%	1%
Northern Ireland	70%	25%	4%	1%

(a) Base: All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026)

(b) Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

The focus of Table 2.1.2 is on annual sales which are compared across sectors and regions. The picture for sales across sectors is similar to what we found above for employment. Manufacturing and Distribution have the highest proportions of firms with annual sales in excess of £500k, 18% and 28% respectively. SMEs in Construction and Agriculture SMEs have lower average sales and the proportions of their firms with annual sales of less than £50k were 48% and 59% respectively.

The distribution of sales across the regions shows a more varied pattern than that found above for employment. The proportion of SMEs with annual sales greater than £500k varies between 7% (South West, North East and Wales) and 20% (London and Northern Ireland). The North East has the highest proportion, 67%, of SMEs with annual sales of less than £50k.

Table 2.1.2: Survey population distribution: industry and region by turnover

Category	Less than £50,000	£50,000- £499,999	£500,000- £999,999	£1,000,000+
Industry				
Agriculture	59%	34%	5%	2%
Manufacturing	44%	38%	6%	12%
Construction	48%	43%	3%	6%
Wholesale/retail	24%	48%	14%	14%
Service sectors	47%	40%	4%	9%
Region				
London	34%	46%	11%	9%
South East	44%	41%	3%	12%
East	44%	45%	5%	6%
South West	50%	43%	2%	5%
West Midlands	44%	38%	6%	13%
East Midlands	43%	40%	3%	14%
Yorkshire and Humber	48%	39%	6%	8%
North West	49%	37%	6%	8%
North East	67%	27%	1%	6%
Wales	60%	33%	3%	4%
Scotland	42%	48%	5%	6%
Northern Ireland	32%	48%	5%	15%

Base: All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026)

Table 2.1.3: Survey population distribution: industry by region

Category	Agriculture	Manufacturing	Construction	Wholesale/ retail	Service sectors
London	4%	7%	31%	15%	43%
South East	4%	6%	18%	11%	62%
East	3%	7%	22%	15%	53%
South West	5%	6%	22%	14%	53%
West Midlands	6%	13%	15%	22%	43%
East Midlands	1%	7%	27%	5%	60%
Yorkshire and Humber	6%	2%	24%	10%	58%
North West	5%	10%	12%	15%	58%
North East	6%	10%	15%	16%	53%
Wales	1%	8%	24%	7%	59%
Scotland	3%	10%	22%	11%	53%
Northern Ireland	7%	3%	12%	20%	59%

Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

The final exploration in this section is the linkage between sector and region, so important when attempting to understand regional performance differences. The domination of the Service sectors is apparent in Table 2.1.3 and this varies between 43% (London and West Midlands) and above 60% (South East and East Midlands). The West Midlands has the highest proportions of both Manufacturing, 13%, and Distribution, 22%. The proportion of SMEs in Construction varies from 12% (North West and Northern Ireland) to 31% (London).

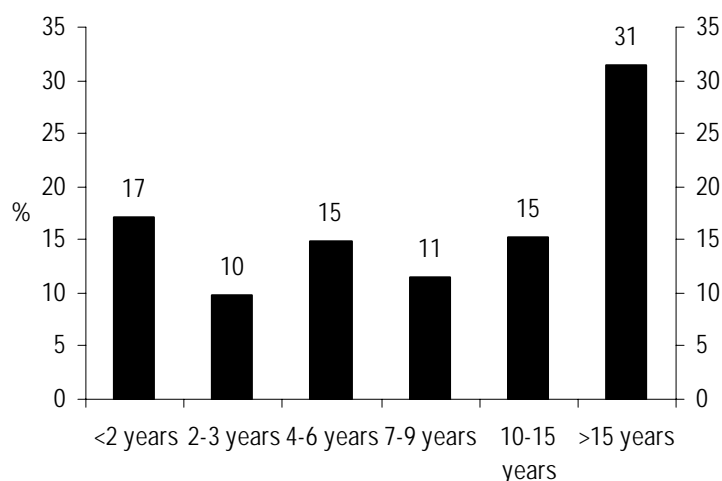
The last three tables show that interpretation of findings is fraught with difficulties owing to the associations between size, sector and region. This means that apparent correlations between the variables may be the result of other factors. For this reason we present tests of statistical significance only for our multivariate analyses in the following chapters. Multivariate analysis allows us to introduce all the potential influencing factors in order to identify which really matter.

Legal Form and Age

The final business characteristics presented concern the legal form and age of the businesses. We find 57% of businesses as sole traders, 34% as companies and 9% as partnerships compared with 66%, 24% and 10% respectively for the 2004 survey. The movement towards incorporation is probably due to tax and other changes that have favoured incorporation.

Chart 2.1.6 shows the distribution of firms by business age. We find that 31% of the businesses have been in existence for fifteen years or more. The 17% that have formed within the last two years form the start-up sample that is analysed in depth later in the report.

Chart 2.1.6: Distribution of business age



Base: All businesses reporting business age: n=4,219,911 (Unweighted: n=2,444)

2.2 Business Owners and Leaders

We first look at the gender of the business owner and leader, shown in Table 2.2.1. Whilst the business leader may also be the principal owner, this is not always the case in legal forms other than sole proprietorships. We show separately those cases where the leadership, or ownership was held equally. About 73% of the SMEs are male-led and male-owned; and although the question was asked differently in 2004 the findings suggest little change since then.

Table 2.2.1: Gender of business owner and business leader

Category	Unweighted base	Female ownership			Female leadership		
		<50%	=50%	>50%	<50%	=50%	>50%
All businesses	2,391	73%	10%	17%	73%	10%	17%
Number of employees							
0	541	77%	5%	19%	78%	3%	19%
1-9	728	62%	27%	11%	59%	29%	12%
10-49	724	69%	18%	13%	67%	20%	13%
50-249	398	76%	12%	11%	78%	12%	9%
Turnover(a)							
Less than £50,000	389	73%	6%	21%	76%	4%	19%
£50,000-£499,999	604	76%	14%	10%	78%	12%	10%
£500,000-£999,999	226	66%	18%	16%	63%	26%	12%
£1,000,000+	711	82%	9%	9%	79%	12%	9%
Industry							
Agriculture	190	72%	11%	17%	72%	10%	18%
Manufacturing	214	82%	10%	8%	81%	10%	9%
Construction	472	91%	5%	4%	91%	4%	5%
Wholesale/retail	260	71%	15%	14%	70%	12%	19%
Service sectors	1,255	65%	11%	23%	66%	11%	23%
Growth firm(b)							
Super growth	334	78%	10%	12%	77%	14%	9%
Other	1,618	76%	12%	12%	77%	11%	13%

Base: All businesses reporting ownership: n=4,125,092 (Unweighted: n=2,391)

(a) Base: All businesses reporting turnover and ownership: n=3,310,697 (Unweighted: n=1,930)

(b) Base: All businesses reporting growth status and ownership: n=3,064,746 (Unweighted: n=1,952)

The table reveals that female ownership and leadership is more prevalent in micro firms and in the Service sectors. Female leadership is least prevalent in SMEs in Manufacturing and Construction, 9% and 5% respectively. The proportion of female business leaders also varies substantially across the regions, but we do not present

the regional pattern here and leave it to Chapter 6 to examine whether this variation can be accounted for by size and sector differences.

Table 2.2.2 explores the age, business experience and education of the business leaders.

Table 2.2.2: Principal owner characteristics - Gender, age, business experience and highest academic qualification of principal owner/ managing partner

Category	Age of owner (mean)	Business experience(a)			Education		
		<10	10-15	16+	None, GCSE	Other	University degree
All businesses 2004	50	18%	22%	61%	30%	46%	24%
All businesses 2007	49	28%	25%	47%	29%	45%	27%
Number of employees							
0	48	32%	25%	43%	28%	44%	28%
1-9	50	18%	26%	56%	32%	45%	23%
10-49	51	12%	21%	67%	25%	46%	29%
50-249	52	9%	21%	70%	19%	38%	43%
Turnover(b)							
Less than £50,000	48	38%	23%	38%	26%	51%	23%
£50,000-£499,999	50	18%	28%	53%	31%	41%	28%
£500,000-£999,999	49	9%	33%	58%	34%	42%	25%
£1,000,000+	52	10%	22%	68%	31%	30%	39%
Industry							
Agriculture	52	10%	17%	73%	43%	43%	13%
Manufacturing	48	30%	23%	47%	33%	41%	27%
Construction	49	21%	25%	54%	36%	57%	7%
Wholesale/retail	48	22%	27%	51%	29%	47%	24%
Service sectors	49	33%	26%	41%	24%	40%	36%
Growth firm(c)							
Super growth	45	32%	34%	35%	34%	38%	28%
Other	52	12%	27%	61%	33%	45%	22%

(a) years

Bases: All businesses reporting principal owner characteristics: 2004: n=3,625,416 (Unweighted: n=2,500); 2007: n=4,256,254 (Unweighted: n=2,513)

(b) Base: All businesses reporting turnover and principal owner characteristics: n=3,411,064 (Unweighted: n=2,025)

(c) Base: All businesses reporting growth status and principal owner characteristics: n=3,169,010 (Unweighted: n=2,058)

Age, business experience and educational qualifications are highest for the largest SME size group and, in general, lowest for the micro firms. Construction and Agriculture have somewhat older and more experienced, but less well educated, business leaders. The table above shows a cut by growth. In this report we define as growth oriented businesses firms that both grew by 30% or more in each of the previous years covered by the survey and who also intend to grow in the next three

years. Our super growth category of firms with fast recent growth and higher growth ambitions are younger, better educated, but have less business experience.

2.3 Business Problems

The survey firms were asked about various difficulties they might be facing and were asked to score their severity on a scale from 1 meaning no problem to 10 meaning a critical problem. The results are presented in Table 2.3.1 below.

Table 2.3.1: Severity of problems faced by small businesses

Category	Production		Sales		Staffing(a)		Finance		Coping with red tape	
	Mean score(b)	7-10	Mean score(b)	7-10	Mean score(b)	7-10	Mean score(b)	7-10	Mean score(b)	7-10
All businesses 2004	2.3	8%	3.2	12%	3.7	19%	2.7	9%	3.5	17%
All businesses 2007	2.6	5%	3.4	11%	3.4	14%	2.7	6%	3.8	18%
Number of employees										
0	2.6	5%	3.5	12%			2.6	6%	3.6	15%
1-9	2.5	6%	3.3	10%	3.4	14%	2.8	7%	4.5	27%
10-49	2.8	5%	3.4	9%	3.8	16%	2.9	8%	4.4	26%
50-249	3.1	10%	3.8	11%	4.0	16%	2.9	5%	4.5	24%
Turnover(c)										
Less than £50,000	2.3	5%	3.4	14%	2.7	10%	2.5	6%	3.6	16%
£50,000-£499,999	2.6	6%	3.2	10%	3.4	14%	2.8	8%	4.1	22%
£500,000-£999,999	2.6	6%	3.2	7%	4.0	16%	3.0	8%	4.7	27%
£1,000,000+	3.1	4%	4.3	6%	4.1	22%	2.4	3%	3.9	21%
Industry										
Agriculture	2.7	8%	2.9	6%	2.5	11%	2.5	3%	4.0	17%
Manufacturing	2.6	8%	3.7	15%	3.2	11%	2.9	9%	3.8	23%
Construction	2.3	7%	2.9	14%	3.4	16%	2.5	5%	3.5	15%
Wholesale/retail	2.9	6%	3.6	10%	3.9	19%	3.0	7%	4.1	20%
Service sectors	2.6	3%	3.6	11%	3.4	14%	2.7	7%	3.9	19%
Growth firm(d)										
Super growth	2.4	6%	3.2	10%	3.3	13%	2.9	9%	3.8	14%
Other	2.6	5%	3.4	12%	3.5	16%	2.6	6%	4.0	22%

(a) Excluding business with no employees

(b) Scores ranged from 1=no problem to 10=critical problem

Bases: All businesses reporting problems: 2004: n= 3,522,000 (Unweighted: n=2,430); With employees: n=1,278,681 (Unweighted: n=1,880)

2007: n=4,085,071 (Unweighted: n=2,440); With employees: n=1,193,554 (Unweighted: n=1,932)

(c) Base: All businesses reporting turnover and problems: n=3,308,368 (Unweighted: n=1,980); With employees: n=971,270 (Unweighted: n=1,576)

(d) Base: All businesses reporting growth status and problems: n=3,051,491 (Unweighted: n=2,009); With employees: n=1,016,978 (Unweighted: n=1,672)

The table presents both the mean score and the proportion of firms giving the severity of the problem a score of 7 or above. Looking first at all firms, it is apparent that coping with red tape is given as their most difficult problem, but that production and finance are not thought of as particularly difficult. Sales and staffing issues come somewhere in between. In general, there is no clear pattern in these problems across the size groups except that zero-employee businesses are less concerned about red tape. This reinforces the findings of other surveys that it is employment-based legislation that gives SMEs the hardest problems.

The severity of the problem in each of these areas does differ across sectors. Some are no surprise – the greater problems with finance amongst manufacturers and the lower problem with production for services – but others are perhaps surprising – it is not obvious that Construction would be least bothered by red-tape (possibly a size effect?).

The comparison of super growth firms with the rest is of interest. These fast growth firms score most of the barriers lower than other firms including staffing problems and red tape. The key exception is the finance constraint, but even here only 9% of the super growth firms encountered real problems.

The survey also sought to examine the financial competence and preparedness to learn new financial skills amongst the survey firms. Table 2.3.2 reports on the proportion of firms with a financially qualified person in charge of financial management. It also asked whether the respondent was aware of financial training programmes.

Table 2.3.2: Businesses with formally qualified financial managers; and awareness of programmes to develop financial skills

Category	Unweighted base	Formally qualified financial managers	Awareness of programmes to develop financial skills
All businesses	2,493	25%	27%
Number of employees			
0	547	22%	27%
1-9	748	32%	26%
10-49	749	45%	26%
50-249	449	66%	28%
Industry			
Agriculture	191	23%	28%
Manufacturing	234	24%	29%
Construction	493	13%	22%
Wholesale/retail	278	23%	23%
Service sectors	1,297	31%	30%
Growth firm(a)			
Super growth	354	34%	29%
Other	1,688	24%	24%

Base: All businesses: n=4,230,451 (Unweighted: n=2,493)

(a) Base: All businesses reporting growth status and on financial managers: n=3,154,272 (Unweighted: n=2,042)

About one-quarter of businesses have a financially qualified person. The proportion is size dependent with only a fifth of zero-employee businesses, but about two-thirds of large SMEs in this position. The proportion is lowest in Construction and highest in the Service sectors.

The proportion aware of financial training programmes is again about one-quarter overall, but shows little variation with size and sector. Despite this, the variation across the regions is quite stark. Super growth firms are more likely to have qualified financial managers and to be aware of financial training availability.

Table 2.3.3 examines the barriers faced by businesses in improving their financial skills. Only the most common responses are reported here and so the rows do not necessarily sum to 100%. Over half of the businesses say that they have no need to improve since they are already perfectly capable and this proportion rises to two-thirds for large SMEs.

About one-third said that they are too busy, or can't be bothered to improve their financial skills and this proportion was lowest for larger SMEs. There is no clear sectoral variation in the answers to this question.

Another interesting finding is found when we compare super growth firms with the rest of the SME population. Super growers were much less likely to report that they could not be bothered and more likely to answer that they did not know where to look for this help.

Table 2.3.3: Barriers to improving financial skills

Category	Too busy / other more important things to worry about	Can't be bothered	Can't afford it	Don't know where to look for this help	Not necessary/ just don't need it/ already perfectly capable
All businesses	24%	9%	5%	4%	56%
Number of employees					
0	23%	10%	6%	5%	56%
1-9	27%	7%	2%	2%	55%
10-49	26%	5%	2%	2%	60%
50-249	19%	7%	2%	2%	69%
Industry					
Agriculture	25%	10%	2%	3%	58%
Manufacturing	25%	12%	5%	5%	50%
Construction	29%	9%	5%	4%	55%
Wholesale/retail	28%	7%	3%	4%	53%
Service sectors	21%	10%	5%	5%	57%
Growth firm(a)					
Super growth	31%	3%	2%	10%	55%
Other	23%	11%	4%	4%	55%

Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

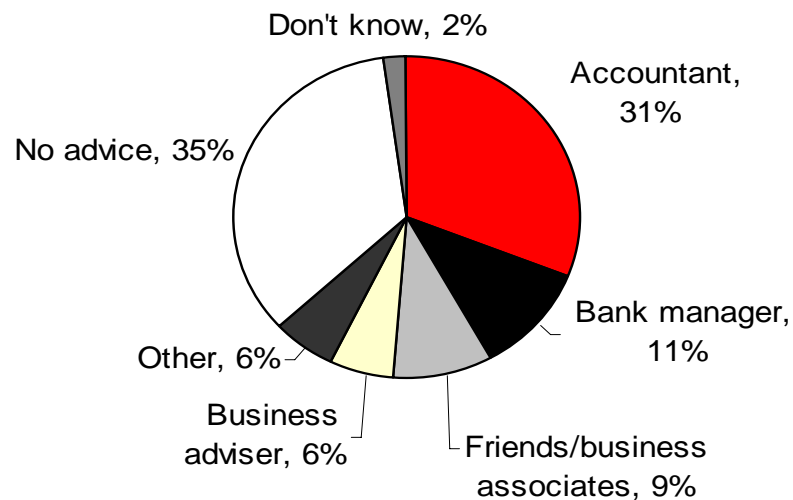
(a) Base: All businesses reporting growth status: n=3,169,095 (Unweighted: n=2,059)

2.4 Business Advice

The firms were asked the question – when making decisions about finance, what main external source of support and advice do you use? Their answers are shown in Chart 2.4.1 below.

The proportion of businesses without external advice is 35%, the same as that found for the 2004 survey. Accountants are the most commonly used external source, used by 31% in both 2004 and 2007. The bank manager was given as the answer in only 11% of the cases, down from 16% in 2004.

Chart 2.4.1: Sources of financial advice

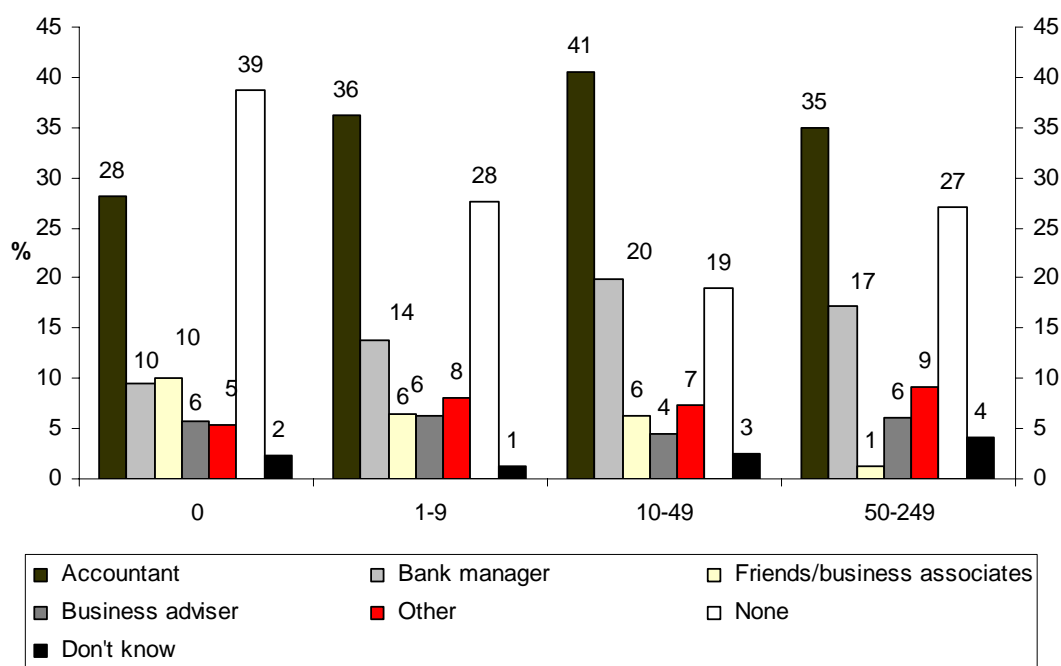


Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

In Chart 2.4.2 the use of external advice is analysed by business size. The columns for the no advice category suggest that as SMEs get larger they become more likely to seek external advice, but that this tendency diminishes again amongst the largest SME category as their internal competences grow.

This pattern reflects itself in the proportions seeking advice from banks and accountants. This proportion rises from 38% for zero-employee businesses to 61% for businesses with 10-49 employees, but falls back to 53% for firms with 50-249 employees.

Chart 2.4.2: Sources of financial advice by employment size



Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

2.5 Business Skills and Objectives

The final section of this chapter examines the business skills and methods within the sample SMEs and examines their growth ambitions.

Table 2.5.1 reports on some key milestones for a growing and innovative business – introduction of a new product, or service, business improvement, exporting and a website for trading. For all SMEs the findings show that 14% have introduced a new product, or service, whilst 35% have improved a business aspect recently. Whilst only 9% export, 35% now have a website for trading – this latter is remarkable given the small average sizes of our businesses.

The proportion that has developed a new product, or service, varies across the size groupings and sectors. Only 11% of the zero-employment businesses have achieved this, compared with 39% of the large SMEs. Only 5% in Construction and Agriculture had developed new products or services, but the figures are 27% and 21% for Manufacturing and Distribution respectively. Business improvement is also more prevalent amongst larger firms, but the sectoral variations are more muted. Both innovation and improvement show marked differences across the regions (not reported here), but it is not possible at this stage to say how much of this can be attributed to size and sectoral variations.

The patterns for the proportion of firms exporting and the existence of a website for trading are very similar to that for innovation and business improvement. Super growth firms score more highly than others in each of the categories.

Table 2.5.1: Innovation and exporting

Category	New product or service in past 3 years	Improved a business aspect in past 3 years	Exporter	Website for trading
All businesses	14%	35%	9%	35%
Number of employees				
0	11%	31%	6%	32%
1-9	19%	44%	13%	39%
10-49	28%	58%	20%	55%
50-249	39%	64%	29%	69%
Turnover(a)				
Less than £50,000	12%	34%	5%	32%
£50,000-£499,999	14%	35%	9%	35%
£500,000-£999,999	37%	52%	18%	48%
£1,000,000+	20%	61%	31%	53%
Industry				
Agriculture	5%	36%	8%	18%
Manufacturing	27%	41%	19%	38%
Construction	5%	26%	3%	26%
Wholesale/retail	21%	43%	17%	35%
Service sectors	15%	37%	7%	39%
Growth firm(b)				
Super growth	17%	47%	11%	41%
Other	12%	32%	9%	31%

Base: All businesses: n=4,256,339 (Unweighted: n=2,514)
(a) Base: All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026)
(b) Base: All businesses reporting growth status: n=3,169,095 (Unweighted: n=2,059)

Table 2.5.2 shows other aspects of business planning and operations. Formal business plans are used in some form or other by 29% of the firms. Again they are used more commonly by large SMEs and less commonly by Agriculture and Construction businesses.

A similar picture is found for human resource (HR) planning and the use of performance-related pay methods (PRP), both of which are irrelevant for zero-employee firms. Total quality management (TQM) is used more frequently by larger firms and by those operating in Manufacturing and Distribution.

A substantially higher proportion of super growth firms use these methods of planning and managing their workforce and production.

About 16% of the SMEs plan to sell, pass on, or close their business within the next three years. Whilst this is more likely amongst small firms, there is no strong sectoral pattern. Despite this there are some marked differences across the regions – 24% in the West and East Midlands but only 6% in Yorkshire and Humber and 8% in the South East. Super growth firms were much less likely to be considering passing on or closing down their businesses.

Table 2.5.2: Business planning, methods and exiting

Category	Formal written business plan	Written HR plan(a)	Performance related pay (a)	TQM	Plan to sell, pass on or close down in next 3 years
All businesses	29%	22%	21%	14%	16%
Number of employees					
0	26%	-	-	12%	17%
1-9	34%	17%	20%	19%	14%
10-49	51%	45%	32%	31%	10%
50-249	61%	57%	36%	41%	8%
Turnover(b)					
Less than £50,000	23%	8%	11%	12%	16%
£50,000-£499,999	27%	18%	24%	15%	18%
£500,000-£999,999	37%	33%	22%	26%	20%
£1,000,000+	57%	41%	35%	36%	13%
Industry					
Agriculture	19%	7%	13%	12%	15%
Manufacturing	33%	33%	25%	20%	13%
Construction	23%	24%	19%	12%	12%
Wholesale/retail	30%	24%	26%	20%	17%
Service sectors	31%	20%	20%	14%	17%
Growth firm(c)					
Super growth	45%	28%	31%	17%	6%
Other	24%	20%	21%	14%	20%

(a) Excluding business with no employees

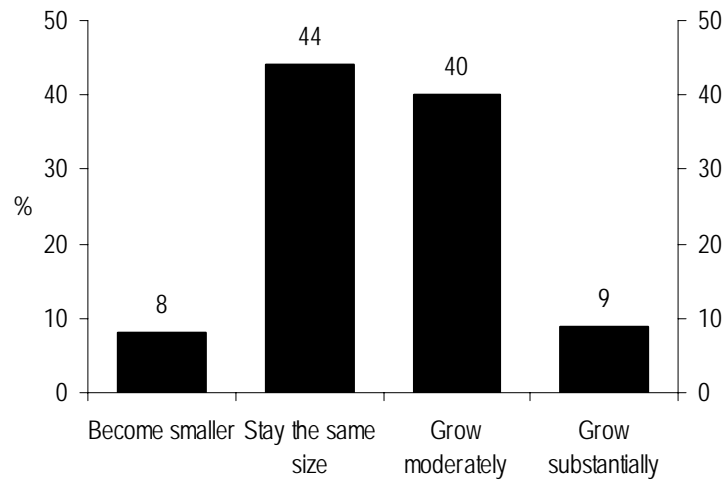
Bases: All businesses: n=4,256,339 (Unweighted: n=2,514); With employees: n=1,225,297 (Unweighted=1,964)

(b) Bases: All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026); With employees: n=988,207 (Unweighted=1,590)

(c) Bases: All businesses reporting growth status: n=3,169,095 (Unweighted: n=2,059); With employees: n=1,040,743 (Unweighted=1,693)

The firms were asked about their growth objectives over the next three years and the findings are summarised in Chart 2.5.1 below. 40% sought to grow moderately, whilst 44% intended to stay the same size. The remainder were divided about equally between those wanting to grow substantially and those expecting to become smaller.

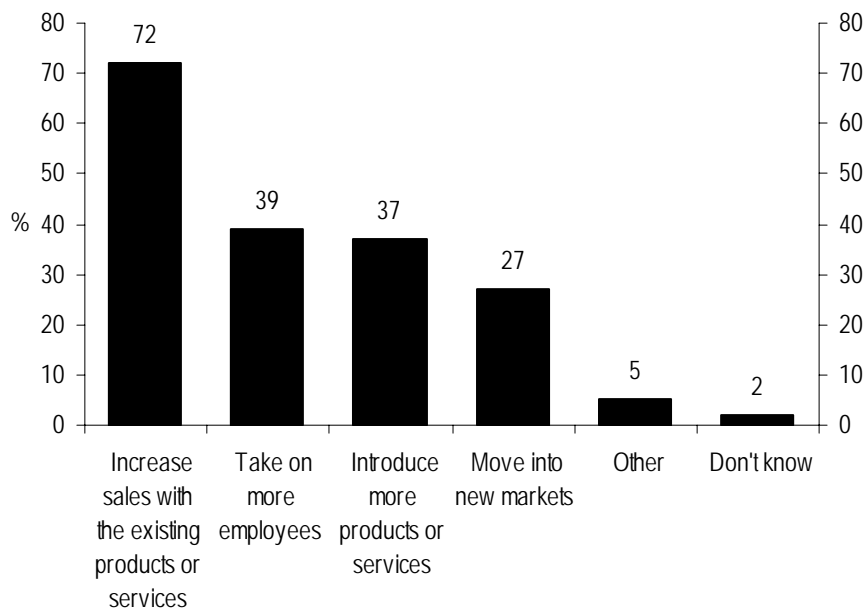
Chart 2.5.1: Growth objectives over the next three years



Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

When growth oriented firms were asked about how this growth would be achieved, 72% said that it would be achieved with existing products, but 27% said they would move into new markets. 37% intended to introduce new products or services and 39% intended to take on more employees.

Chart 2.5.2: Ways in which firms are planning to grow the business



Base: All businesses planning to grow: n=2,061,631 (Unweighted: n=1,591)

Table 2.5.3 examines the growth ambitions by size, sector and region. It shows that growth ambition is positively related to firm size and that there are marked sectoral differences. Agriculture and, in particular, Construction have much lower growth ambitions.

Our super growth firms which exhibited fast growth in the past and which retain future growth ambitions can, by definition, be found only in the last two columns of this table. Less than a quarter of these firms are seeking to grow substantially over the next three years.

Table 2.5.3: Growth objectives over the next three years

Category	Become smaller	Stay the same size	Grow moderately	Grow substantially
All businesses	8%	44%	40%	9%
Number of employees				
0	9%	48%	36%	7%
1-9	6%	35%	48%	12%
10-49	3%	24%	59%	14%
50-249	2%	21%	52%	24%
Turnover(a)				
Less than £50,000	7%	48%	37%	8%
£50,000-£499,999	8%	48%	38%	7%
£500,000-£999,999	6%	22%	58%	13%
£1,000,000+	2%	27%	52%	19%
Industry				
Agriculture	13%	48%	37%	3%
Manufacturing	6%	34%	50%	10%
Construction	5%	66%	24%	5%
Wholesale/retail	8%	41%	42%	9%
Service sectors	8%	37%	44%	11%
Growth firm(b)				
Super growth	-	-	78%	22%
Other	10%	57%	31%	3%

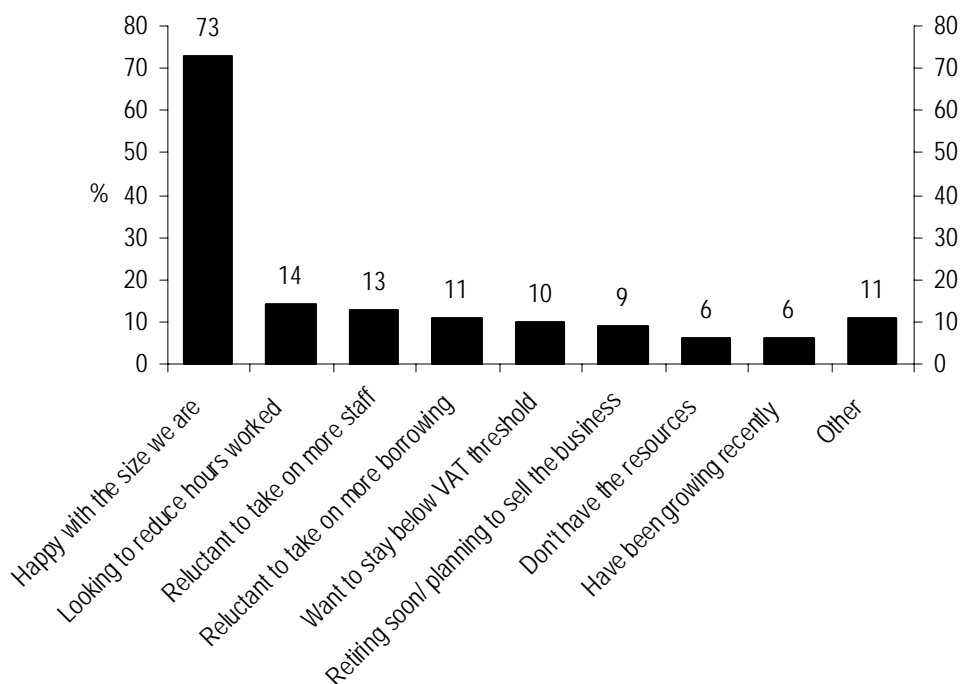
Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

(a) Base: All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026)

(b) Base: All businesses reporting growth status: n=3,169,095 (Unweighted: n=2,059)

Chart 2.5.3 explores the reasons given by those firms not planning to grow – those that intend to stay the same size or become smaller. Not surprisingly, the most common reason given was that the firms were happy with their present size. All the other reasons given were much less prevalent, but 13% were reluctant to take on more staff, 11% were reluctant to take on more borrowing and 10% wanted to stay below the VAT threshold.

Chart 2.5.3: Reasons why firms are not planning to grow



Base: All businesses not planning to grow: n=2,194,708 (Unweighted: n=923)

Table 2.5.4 examines the reasons for not wanting to grow across size and sector. Small businesses are more likely to be concerned with their workload, to be reluctant to take on more staff, and to want to stay below the VAT threshold.

Agriculture and Construction give higher scores to almost all of the reasons for not growing. The Service sector also has a relatively high reluctance to take on more staff and more borrowing. These sectoral findings may in part explain why we found a much greater reluctance to take on borrowing in the South East, Yorkshire and the Humber and Northern Ireland, each of which was over twice as high as the average of the other regions.

Agriculture and Manufacturing were more likely to cite business closure, or sale, as a reason for not planning to grow, but these sectors did not exhibit higher proportions of businesses intending to close when we examined all businesses (growth oriented and non-growth oriented) in Table 2.5.2 above.

**Table 2.5.4: Reasons for not planning to grow the business
(Businesses that are not planning to grow)**

Category	Happy with size	Reducing working hours	Reluctant to take on more staff	Reluctant to take on more borrowing	Stay below VAT threshold	Retiring soon/ planning to sell the business
All businesses	73%	14%	13%	11%	10%	9%
Number of employees						
0	72%	15%	13%	11%	11%	10%
1-9	76%	13%	13%	7%	6%	6%
10-49	70%	7%	9%	11%	0%	6%
50-249	76%	5%	7%	8%	1%	0%
Turnover(a)						
Less than £50,000	73%	18%	14%	15%	17%	8%
£50,000-£499,999	73%	13%	17%	9%	4%	7%
£500,000-£999,999	37%	27%	6%	2%		22%
£1,000,000+	73%	29%	34%	31%		2%
Industry						
Agriculture	74%	20%	20%	17%	19%	14%
Manufacturing	61%	14%	6%	6%	1%	15%
Construction	81%	18%	19%	12%	16%	5%
Wholesale/retail	64%	11%	7%	1%	1%	8%
Service sectors	71%	12%	12%	12%	9%	10%

Base: All businesses not planning to grow: n=2,194,708 (Unweighted: n=923)

(a) Base: All businesses reporting turnover and are not planning to grow: n=1,751,633 (Unweighted: n=711)

Executive Summary

- *This chapter examines the characteristics of the survey sample and sets them in the context of the UK SME sector. It also examines the people who own and run these businesses, their competences and ambitions and the problems their businesses face.*
- *The 2007 sample of 2,514 SMEs was selected to permit accurate grossing up to the national picture of 4.26 million SMEs. The proportions of the sample falling into each employment size group (and the SME national population proportions in parentheses) were: zero employee businesses 22% (71%); micro firms (1-9 employees) 30% (25%); small firms (10-49 employees) 30% (3%); and medium-sized firms (50-249 employees) 18% (1%).*

- *The Service sector is dominant and this varies between 43% (London and West Midlands) and above 60% (South East and East Midlands). The West Midlands has the highest proportions of both Manufacturing, 13%, and Distribution, 22%. The proportion of SMEs in Construction varies from 12% (North West and Northern Ireland) to 31% (London).*
- *We show that there are significant associations between region, sector and business size that call for caution in the interpretation of simple comparisons of average findings.*
- *57% of businesses are sole traders, 34% are companies and 9% are partnerships compared with 66%, 24% and 10% respectively for the 2004 survey. The movement towards incorporation is probably due to tax and other changes that have favoured incorporation.*
- *Over 30% of the businesses have been operating for over 15 years, whilst the 17% that have formed within the last two years form the start-up sample that is analysed in depth later in this report.*
- *We find that about 17% of the firms are owned, or led, by females; and males and females run a further 10% equally. This suggests little change since the 2004 survey. Female ownership and leadership is more prevalent in micro firms and in the Service sectors. Female leadership is least prevalent in SMEs in Manufacturing and Construction, 9% and 5% respectively.*
- *The survey firms were asked about various difficulties they might be facing and were asked to score their severity. Coping with red tape is given as their most difficult problem, whilst production and finance are not thought of as particularly difficult. Sales and staffing issues come somewhere in between.*
- *About one-quarter of businesses have a financially qualified person. The proportion is size dependent with only a fifth of zero-employee businesses, but about two-thirds of large SMEs in this position. The proportion is lowest in Construction and highest in the Service sectors.*
- *Over half of the businesses say that they have no need to improve their financial skills since they are already perfectly capable and this proportion rises to two-thirds for large SMEs. About one-third said that they are too busy, or can't be bothered to improve their financial skills and this proportion was higher for small SMEs.*
- *The proportion of businesses not using external advice when making financial decisions is 35%, the same as that found for the 2004 survey. Accountants are the most commonly used external source, used by 31% in both 2004 and 2007. The bank manager was given as the answer in only 11% of the cases, down from 16% in 2004. The use of external advice rises with firm size.*
- *Over the next three years, 9% plan to grow substantially, and about 40% seek to grow moderately. 44% intend to stay the same size and 8% expect to become smaller.*

3 Use of External Finance

This chapter analyses the use and cost of external finance over the previous three years by SMEs. It also reports on the length of relationships between the firm and the financial institutions they use.

The results of these analyses are compared with the findings of the 2004 survey wherever possible. The figures shown are the winsorised (i.e. with the extreme values curtailed) population means that were discussed in Chapter 1, but in several tables median values (i.e. the middle values when the data are ranked in order of size) are also provided.

3.1 Sources of Finance

We start with the big picture – what proportion of the SMEs are using financial products other than current accounts, before turning to where they are getting their external finance and how that has changed since 2004.

Table 3.1.1 shows that a lower proportion of SMEs are using external finance than was found in 2004. The proportion has fallen from 81% to 69% and a higher proportion of these use just one product than was found three years earlier.

Table 3.1.1: % of firms using external finance in the last 3 years(a)

	Number in sample	Used any finance	Number of products used			
			0	1	2-4	5-7
All businesses 2004	2,227	81%	19%	29%	49%	2%
All businesses 2007	2,514	69%	31%	31%	37%	1%

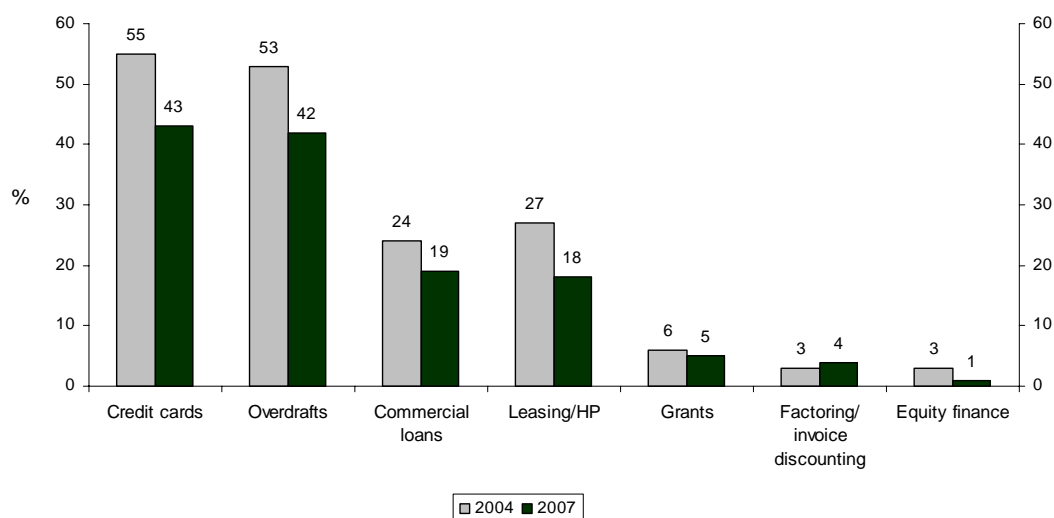
(a) External finance includes overdrafts, term loans, leasing/HP, factoring/invoice discounting, credit cards, grants or equity
 Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500);
 All businesses 2007: n=4,256,339 (Unweighted: n=2,514)

In terms of which financial product is being used, Chart 3.1.1 below shows the percentages of SMEs using each type of external finance and it appears that there has been a decline in the use of most forms since 2004.

Credit cards and overdrafts remain the most common and are used by about the same proportion of firms, but the proportion is about 10 percentage points lower than in 2004.

The use of leasing/HP finance has shrunk to the same level of use as commercial loans and mortgages, just under 20% of firms. The use of other forms of finance remains low.

Chart 3.1.1: % of businesses using various financial products in last three years



Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500); All businesses 2007: n=4,256,339 (Unweighted: n=2,514)

These headline figures are explored in more depth in Table 3.1.2 which examines the use of external finance across size, sector, region and the gender of the business leader. The low proportion of businesses using new equity finance does not permit further analysis and it is not included in this table.

The proportion of businesses using each form of finance rises with firm size. There is a significant difference between zero employee businesses and micro firms (employing 1-9 people) in each of the categories other than credit cards. There is a large increase in the proportion using leasing/HP and credit cards in going from micro to small (employing 10-49 people) firms.

The other forms of finance – overdrafts, factoring and invoice discounting, grants, commercial loans, and equity – show a steady increase in going from micro to medium-sized (employing 50-249 people) firms. A similar, but not identical, increase is observed across the turnover size groupings.

Overdrafts and grants are most commonly used in Agriculture. Commercial loans and asset-based finance (factoring, invoice discounting, and stock finance) are most commonly used by Manufacturing firms. Also, a higher proportion of SMEs in Manufacturing make use of credit cards than in the other sectors. The Service sectors make the lowest use of leasing/HP.

Although not reported in the table, there is a wide variation in the use of each type of external finance across the regions, some of which may be accounted for by size and sector variations. For example, the North East stands out for its low use of most forms of finance other than grants.

Table 3.1.2: Use of external financial products: % of businesses using in the last three years

Type of finance→	No. in sample	Credit cards	Over-drafts	Com. loans	Leasing or HP	Factor-ing	Grants
All businesses 2004	2,500	55%	53%	24%	27%	3%	6%
All businesses 2007	2,514	43%	42%	19%	18%	4%	5%
Number of employees							
0	550	41%	37%	15%	13%	2%	3%
1-9	756	43%	52%	29%	28%	6%	6%
10-49	756	66%	59%	37%	52%	13%	12%
50-249	452	73%	62%	43%	55%	21%	18%
Turnover							
Less than £50,000	398	38%	39%	12%	11%	1%	4%
£50,000-£499,999	419	44%	43%	22%	22%	6%	4%
£500,000-£999,999	441	56%	54%	33%	31%	4%	6%
£1,000,000+	768	63%	49%	39%	45%	11%	7%
Industry							
Agriculture	192	42%	48%	19%	21%	1%	10%
Manufacturing	236	47%	45%	24%	22%	5%	5%
Construction	495	44%	43%	11%	22%	3%	3%
Wholesale/retail	280	42%	39%	20%	19%	4%	6%
Service sectors	1,311	41%	41%	21%	16%	4%	4%
Deprivation (15%)							
Deprived area	558	36%	36%	19%	15%	5%	5%
Other	1,956	44%	43%	19%	19%	3%	4%
Female leadership							
<50%	1,733	43%	43%	20%	19%	4%	4%
=50%	424	49%	46%	27%	20%	5%	7%
>50%	337	39%	33%	12%	14%	2%	6%
Female ownership							
<50%	1,675	44%	44%	21%	19%	4%	4%
=50%	398	44%	44%	27%	21%	5%	6%
>50%	318	39%	32%	9%	12%	3%	6%
Growth firm							
Super growth	358	45%	49%	30%	26%	10%	6%
Other	1,701	43%	47%	22%	21%	3%	4%
Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500); All businesses 2007: n=4,256,339 (Unweighted: n=2,514)							

We use a definition of a deprived area in this report, drawn from a definition provided by BERR, that includes the lowest 15% areas as measured by an Index of Multiple Deprivation. We find the deprived areas make lower use of overdrafts, credit cards and leasing/HP. Female owned and led businesses both show a lower recourse to every form of external finance other than grants.

The super growth firms make greater use of every form of external finance other than equity, which is rarely used as a source of new finance by any SME. The contrast between the super growth and the others is greatest in the use of commercial loans, leasing/HP and factoring/invoice discounting.

The survey also asked firms about their use of other financial products in the last three years and the findings are summarised in Table 3.1.3. It shows some modest reduction in the use of business current and deposit accounts since 2004 and some increase in the resort to their own resources. The proportion obtaining funds from friends and family has risen from 6% to 10% and the proportion of SMEs taking loans from business owners has also risen, from 9% to 16%.

The proportion of zero employee businesses using business current and deposit accounts is lower than other SMEs and the use of deposit accounts rises across the four size groups. Zero employee businesses are more likely to resort to friends and family finance, but less likely to take out loans from business owners than any of the other size groups.

The Construction SMEs are least likely to use a business current account. The cash-rich Service sectors are more likely to use a deposit account, whilst the cash-starved Agriculture SMEs are least likely to use one. Funds from friends and family are equally prevalent, 10-12%, across all sectors. Loans from the business owners are far more common in Manufacturing, Distribution, and Service sectors than in Agriculture and Construction.

SMEs in deprived areas make somewhat less use of current and deposit accounts and loans from friends and family, but these differences are small. Female-owned firms and female-led firms also show few differences from their male counterparts other than in a lower use of loans from business owners.

The super growth firms differ from other firms in having a higher proportion making use of deposit accounts and much higher use of loans from business owners.

The firms were also asked whether each type of external finance was easier, unchanged, or harder to obtain than three years earlier and this is shown in Table 3.1.4 below. The majority of firms stated that there had been no change in the ease of obtaining each source and this was highest for asset-based finance.

Whilst the lowest proportion, 69% for unchanged difficulty was given to overdrafts, the other 31% of firms were equally divided over whether it had become easier or more difficult. A similar picture emerged for commercial loans and mortgages. It has to be remembered that whilst the Northern Rock problem and the credit crunch emerged during the time the survey was being carried out, it was low profile and had not by then impacted on the financing of SMEs in the way that it appears to have done by the middle of 2008.

Table 3.1.3: Use of external financial products: % of businesses using in the last three years

Type of finance→	Current account	Deposit account	Friends and family finance	Loans from owner/ director or shareholder
All businesses 2004	97%	41%	6%	9%
All businesses 2007	91%	40%	10%	16%
Number of employees				
0	89%	33%	11%	11%
1-9	95%	56%	8%	26%
10-49	97%	64%	7%	29%
50-249	98%	71%	7%	26%
Turnover(a)				
Less than £50,000	90%	30%	14%	9%
£50,000-£499,999	95%	43%	10%	18%
£500,000-£999,999	95%	59%	9%	32%
£1,000,000+	94%	71%	11%	32%
Industry				
Agriculture	92%	30%	10%	5%
Manufacturing	97%	35%	12%	17%
Construction	82%	33%	11%	9%
Wholesale/retail	85%	38%	10%	17%
Service sectors	95%	45%	10%	19%
Deprivation (15%)				
Deprived area	88%	38%	8%	16%
Other	92%	41%	11%	16%
Female leadership				
<50%	92%	38%	11%	16%
=50%	85%	54%	6%	27%
>50%	95%	39%	11%	8%
Female ownership				
<50%	90%	39%	10%	15%
=50%	95%	46%	8%	27%
>50%	89%	41%	14%	8%
Growth firm(b)				
Super growth	90%	53%	9%	24%
Other	93%	41%	10%	16%

Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500);

All businesses 2007: n=4,256,339 (Unweighted: n=2,514)

(a) All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026)

(b) All businesses reporting growth status: n=3,169,096 (Unweighted: n=2,059)

The most important changes were noted in three areas. Credit card finance and leasing or hire purchase finance were seen as having become easier to obtain by 26% and 20% of the firms respectively. On the other hand, grants were noted as more difficult to get by 18% of the firms.

Table 3.1.4: Ease of obtaining types of finance

	Harder	Easier	Unchanged
Types of finance			
Overdraft	15%	16%	69%
Grants	18%	4%	78%
Commercial loans/mortgages	13%	15%	72%
Loans from friends or family	8%	7%	85%
Loans from owners directors or shareholders	7%	7%	86%
Leasing or hire purchase	3%	20%	77%
Factoring/invoice discounting	4%	7%	90%
Credit cards	4%	26%	70%
Equity finance	3%	5%	91%

Bases: Overdraft: n=2,617,397 (Unweighted: n=1,839); Grants: n=1,697,899 (Unweighted: n=1,212); Loans/mortgages: n=2,076,903 (Unweighted: n=1,480); Friends or family loans: n=1,901,110 (Unweighted: n=1,196); Owner director or shareholder loans: n=1,908,400 (Unweighted: n=1,311); Leasing or HP: n=2,098,301 (Unweighted: n=1,614); Invoice discounting: n=1,801,592 (Unweighted: n=1,216); Credit cards: n=2,471,488 (Unweighted: n=1,738); Equity finance: n=1,746,771 (Unweighted: n=1,147)

3.2 Banking Provision

This section examines the relationship of the firms with their main banking provider. We begin by exploring the market share (as measured by the number of firms) of the largest four banks (i.e. Barclays, HSBC, Lloyds TSB, and the RBS Group including NatWest). If we look first at the top of Table 3.2.1 we can see that the market share of the Top 4 in the SME sector appears to have fallen modestly from 78% in 2004 to 76% in the 2007 survey.

We can explore this market share within the various business segments and regions in the rest of the table. The market share of the Top 4 is lower for zero employee businesses at 74% compared with over 80% for other businesses.

There does not appear to be any marked sector effects in the share of the Top 4 banks with each of the five sectors having a market share between 75% and 78%. On the other hand, there is a marked variation across the regions. This is not surprising for Northern Ireland and Scotland, but the variation between an 80% plus share in London, the East and the West Midlands can be contrasted with a 64% share in Yorkshire and the Humber.

The Top 4 exhibit a lower market share in the deprived areas, 69% compared with 77% in other areas, but this may be associated with the regional effects discussed above. These leading banks also have a lower market share amongst super growth firms.

Table 3.2.1: Market shares of largest four providers

	Numbers in sample	Top 4(a)	Other providers
All businesses 2004	2,500	78%	22%
All businesses 2007	2,483	76%	24%
Number of employees			
0	541	74%	26%
1-9	749	80%	20%
10-49	745	83%	17%
50-249	448	83%	17%
Industry			
Agriculture	191	76%	24%
Manufacturing	232	75%	25%
Construction	484	75%	25%
Wholesale/retail	274	78%	22%
Service sectors	1,302	76%	24%
Deprivation (15%)			
Deprived area	554	69%	31%
Other	1,929	77%	23%
Growth firm			
Super growth	354	71%	29%
Other	1,683	77%	23%

Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500); All businesses 2007: n=4,201,278 (Unweighted: n=2,483)

(a) Note the top 4 providers are Barclays, HSBC, Lloyds TSB and RBS Group (i.e. RBS and NatWest)

The next table explores the length of the firm's relationship with the main provider. Averages are provided in Table 3.2.2 in both mean and median form. Looking first at the top of the table we can see that the average length of relationship appears to have reduced since the 2004 survey and it is quite a marked change. This will be explored in Chapter 10 when we examine switching in more detail.

As might be expected, the length of the relationship increases with firm size and is markedly longer in Agriculture. The deprivation differences are not large, but there is some evidence that female business leaders have had shorter banking relationships. This could be partly a size and sector effect.

Table 3.2.2 : Average length of relationship with main provider

	Number in sample	Mean (years)	Median (years)
All businesses 2004	2,500	15	-
All businesses 2007	2,492	12	7
Number of employees			
0	547	11	7
1-9	750	14	10
10-49	752	16	12
50-249	443	17	12
Industry			
Agriculture	190	23	20
Manufacturing	232	11	5
Construction	492	13	10
Wholesale/retail	279	12	10
Service sectors	1,299	10	7
Deprivation (15%)			
Deprived area	552	12	7
Other	1,940	12	7
Female leadership			
<50%	1,703	12	8
=50%	423	14	11
>50%	336	8	3
Growth firm			
Super growth	356	5	8
Other	1,686	12	15

Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500);

All businesses 2007: n=4,229,500 (Unweighted: n=2,492)

The businesses were asked whether their main bank was the sole provider, or one of the providers, of the various types of external finance. Table 3.2.3 shows that they were generally the sole provider of current accounts and overdrafts.

On the other hand, a significant proportion (15%) of firms held deposit accounts in addition to the one with their main bank. We find that in 19% of the cases of those with commercial loans and mortgages that the loan did not come from the main bank; and in only two-thirds of the cases was the bank the sole provider. The picture for credit cards is similar to that for commercial loans and mortgages.

Leasing and HP, and factoring and invoice discounting, are more likely to be provided by other providers than by the firm's main bank, but the SME may not know if the provider is a member of the same group as their main bank.

Table 3.2.3: Whether main bank is provider of financial products

	Number in sample	Only provider	One of the providers	Not a provider
Financial products				
Current accounts	2,204	90%	8%	1%
Overdrafts	1,143	94%	5%	1%
Deposit accounts	1,131	82%	15%	3%
Commercial loans/mortgages	620	66%	15%	19%
Leasing/hire purchase	787	18%	10%	72%
Factoring/invoice discounting	154	30%	2%	68%
Credit cards	1,228	71%	16%	13%

Bases: Current accounts: n=3,565,646 (Unweighted: n=2,204); Overdraft: n=1,524,432 (Unweighted: n=1,143); Deposit accounts: n=1,494,156 (Unweighted: n=1,131); Loans/mortgages: n=641,419 (Unweighted: n=620); Leasing/hire purchase: n=590,661 (Unweighted: n=787); Invoice discounting: n=91,014 (Unweighted: n=154); Credit cards: n=1,594,539 (Unweighted: n=1,228)

The 2007 survey also asked a question about the length of time the firm has been using other financial institutions in addition to their main bank. This may not be the same supplier, or even the same type of finance and so it is not surprising to find it almost as long as the length of relationship with the bank.

Looking first at the top of Table 3.2.4, we can see that the average length of relationship is eleven years, and the median is six years, both one year less than that found for the relationship length with the current main bank. As was found with the main bank relationship, the length of the relationship increases with firm size and is markedly longer in Agriculture (18-20 years compared with only 5-8 years for the Distribution sectors).

There are no clear differences in the length of this relationship for female and deprived area businesses. The super growth businesses have had shorter relationships particularly when this is measured by the median. But it should be remembered that they were younger businesses on average and so this may account for the shorter average length of relationship.

Table 3.2.4: Average length of relationship with providers other than main bank

	Number in sample	Mean (years)	Median (years)
All businesses	995	11	6
Number of employees			
0	113	10	5
1-9	264	11	6
10-49	358	13	10
50-249	260	15	10
Turnover			
Less than £50,000	79	10	5
£50,000-£499,999	223	12	7
£500,000-£999,999	103	12	10
£1,000,000+	436	14	10
Industry			
Agriculture	79	18	20
Manufacturing	92	9	5
Construction	160	12	7
Wholesale/retail	115	8	5
Service sectors	549	10	7
Deprivation (15%)			
Deprived area	220	9	7
Other	775	11	6
Female leadership			
<50%	719	10	6
=50%	159	12	7
>50%	108	9	6
Female ownership			
<50%	681	11	6
=50%	162	9	5
>50%	107	10	8
Growth firm			
Super growth	158	10	5
Other	702	13	10

Base: All businesses using a provider in addition to main bank reporting values 2007: n=1,176,176 (Unweighted: n=995)

The next table, Table 3.2.5, explores whether firms pay for their banking services and whether they receive interest on their credit balances. About one-third of SMEs benefit from free banking and this is inversely related to firm size.

Businesses in deprived areas are somewhat less likely and female-led and super growth businesses are more likely, to benefit from free banking. About one-half of the firms do pay charges, but receive interest on their credit balances and this arrangement is more common for larger SMEs.

Table 3.2.5: Payment for business banking

	Don't pay at all, have free banking	Pay charges but receive interest on credit balances	Don't receive credit interest but get some transactions free or at discounted rate	Other	Don't know
All businesses	32%	52%	8%	5%	3%
Number of employees					
0	37%	49%	7%	4%	2%
1-9	22%	57%	12%	7%	3%
10-49	13%	67%	10%	5%	5%
50-249	7%	71%	12%	5%	4%
Turnover(a)					
Less than £50,000	43%	43%	6%	5%	2%
£50,000-£499,999	30%	57%	7%	4%	2%
£500,000-£999,999	13%	67%	13%	5%	1%
£1,000,000+	11%	75%	8%	5%	1%
Deprivation (15%)					
Deprived area	18%	63%	9%	5%	4%
Other	21%	60%	10%	6%	3%
Female leadership					
<50%	20%	62%	9%	5%	3%
=50%	16%	62%	11%	8%	3%
>50%	29%	53%	10%	5%	3%
Growth firm(b)					
Super growth	32%	50%	12%	4%	1%
Other	26%	59%	8%	5%	2%

Base: All businesses with current account 2007: n=3,585,000 (Unweighted: n=2,211)

(a) Base: All businesses with current account reporting turnover: n=2,926,818 (Unweighted: n=1,798);

(b) Base: All businesses with current account reporting growth: n=2,715,030 (Unweighted: n=1,827)

Table 3.2.6 examines the level of monthly bank charges for those firms that do not have free banking. The table shows both the mean and median. The weighted mean is higher than found in the 2004 survey, even after allowing for inflation.

The monthly bank charge rises with firm size, but not in proportion to sales. Bank charges are higher in the deprived areas, but lower for female business leaders. It must be remembered that these charges relate only to the two-thirds that do not have free banking. However the deprived area finding is surprising, particularly in view of the fact that a lower proportion of them benefit from free banking. However, this turns out to be a spurious result when examined in a multivariate context taking account of other business characteristics (see Section 3.8 below).

Table 3.2.6: Average total monthly bank charges (£ per month)

	Number in sample	Mean	Median
All businesses 2004	2,248	51	-
All businesses 2007	1,447	69	35
Number of employees			
0	218	36	25
1-9	428	100	50
10-49	491	200	100
50-249	310	443	233
Turnover			
Less than £50,000	163	38	20
£50,000-£499,999	371	60	33
£500,000-£999,999	169	83	50
£1,000,000+	552	203	100
Industry			
Agriculture	108	46	23
Manufacturing	145	63	40
Construction	298	43	30
Wholesale/retail	160	85	50
Service sectors	736	76	40
Deprivation (15%)			
Deprived area	334	80	50
Other	1,113	66	35
Female leadership			
<50%	1,009	63	33
=50%	260	126	50
>50%	162	45	25
Growth firm			
Super growth	219	102	50
Other	1,051	71	40

Bases: All businesses with bank accounts 2004: n=3,239,060 (Unweighted: n=2,248);
All paying bank charges reporting values 2007: n=2,018,512 (Unweighted: n=1,447)

3.3 Deposit Accounts

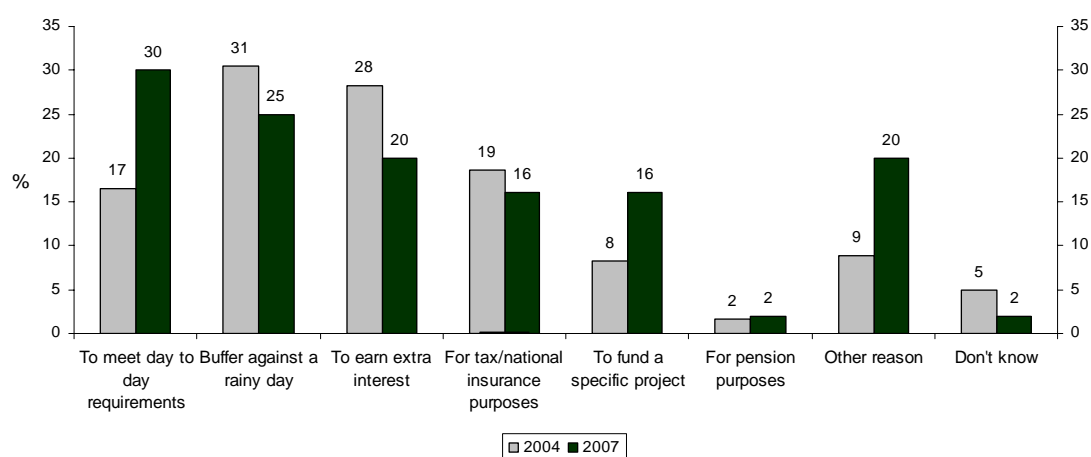
This section looks at the deposit accounts held by SMEs. Table 3.3.1 shows that the proportion of SMEs with deposit accounts is about the same as that found in 2004 at 40% of businesses. These findings were discussed in Section 3.1 above in which the use of deposit accounts was placed in the context of other financial instruments (see Table 3.1.3). The additional information in Table 3.3.1 concerns the average amount held in these deposit accounts by the 40% of SMEs that do have a deposit account. The SME population mean for these account holders is £118,600, a rise from the level of £61,000 found in 2004. However, the median is very much lower at £7,500, so the majority of these accounts have modest holdings.

The mean and median levels of deposit held both rise strongly with firm size. Indeed, the median deposit account balance in the highest employment and turnover size classes is £300,000. The holding of deposit accounts is more common in the Service sectors and lowest in Agriculture and Construction. The mean and median amounts held by those with deposit accounts follow a similar pattern, with median deposits of £30,000 in Distribution and the Service sectors, but only £2,500 in Agriculture and Construction.

Businesses in deprived areas are less likely to have a deposit account and the average amount held is less for those that do than in other areas. The opposite is true for female businesses that are slightly more likely to have a deposit account and to have more in it, when measured by the median. Finally, super growth firms are more likely to have a deposit account, but they hold less in it on average compared with other firms.

Chart 3.3.1 shows the reasons for holding deposit accounts in comparison with the 2004 survey and contains few surprises. Whilst earning interest was less commonly given as a reason, the rise in the use of deposit accounts for day-to-day activity suggests a rise in the flexibility of their use.

Chart 3.3.1 Reasons for holding money on deposit



Bases: 2004: All businesses with deposit accounts: n=1,500,809 (Unweighted: n=1,410);
2007: All businesses with deposit accounts: n=1,498,643 (Unweighted: n=1,135)

Table 3.3.1: % with deposit accounts and amount held on deposit

	% with deposit accounts(a)	Mean(£)(b)	Median(£)(b)
All businesses 2004	41%	60,986	-
All businesses 2007	40%	118,598	7,500
Number of employees			
0	33%	102,440	7,500
1-9	56%	114,892	30,000
10-49	64%	216,304	75,000
50-249	71%	523,839	300,000
Turnover(c)			
Less than £50,000	30%	13,201	2,500
£50,000-£499,999	43%	39,912	7,500
£500,000-£999,999	59%	235,350	30,000
£1,000,000+	71%	403,761	300,000
Industry			
Agriculture	30%	37,041	2,500
Manufacturing	35%	117,317	7,500
Construction	33%	23,494	2,500
Wholesale/retail	38%	94,305	30,000
Service sectors	45%	154,024	30,000
Deprivation (15%)			
Deprived area	38%	77,354	2,500
Other	41%	126,354	7,500
Female leadership			
<50%	38%	120,234	7,500
=50%	54%	78,390	7,500
>50%	39%	153,365	30,000
Female ownership			
<50%	39%	120,287	7,500
=50%	46%	78,870	30,000
>50%	41%	108,145	30,000
Growth firm(d)			
Super growth	53%	106,420	7,500
Other	41%	146,132	30,000

Bases:(a) All businesses with deposit accounts 2004: n=1,500,809 (Unweighted: n=1,410); 2007: n=1,707,790 (Unweighted: n=1,295)

(b) All businesses with deposits reporting value 2007: n=1,236,719 (Unweighted: n=910)

(c) Turnover (col 1): All businesses with deposit accounts reporting turnover: n=1,386,451 (Unweighted: n=1,052);

Turnover (cols 2 & 3): All businesses with deposit accounts reporting value & turnover: n=1,127,615 (Unweighted: n=809)

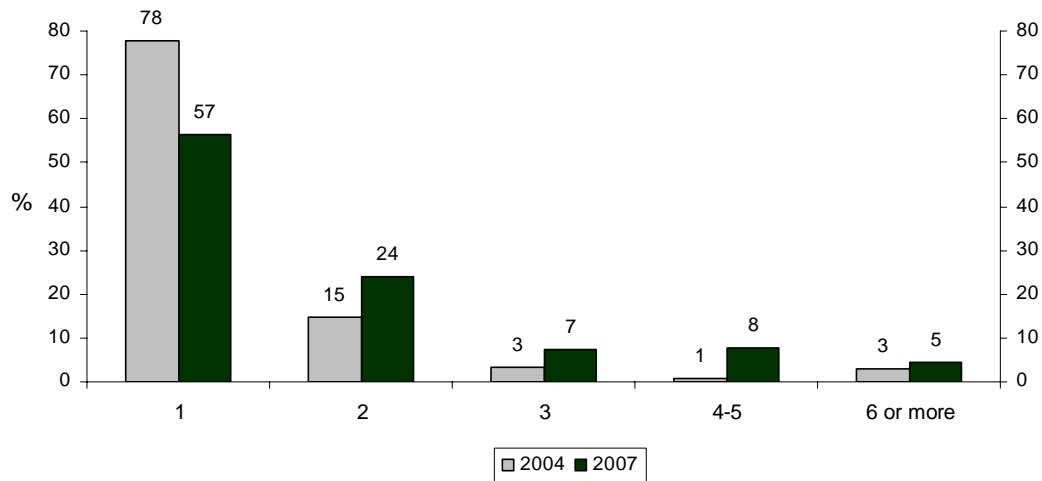
(d) Growth (col 1): All businesses with deposit accounts reporting growth state: n=1,342,374 (Unweighted: n=1,127);

Growth (cols 2 & 3): All businesses with deposit accounts reporting deposit value & growth state: n=1,014,743 (Unweighted: n=802)

3.4 Commercial Loans and Overdrafts

In this section we look at both loans and overdrafts and examine their size, purpose and cost. Chart 3.4.1 shows, for the one-fifth of businesses (see Table 3.1.2) that had commercial loans and mortgages, how many such loans they held. It is shown in comparison with the findings of the 2004 survey. Although the majority of firms with these loans have only one of them, it is clear that the number of loans held by SMEs has risen since 2004.

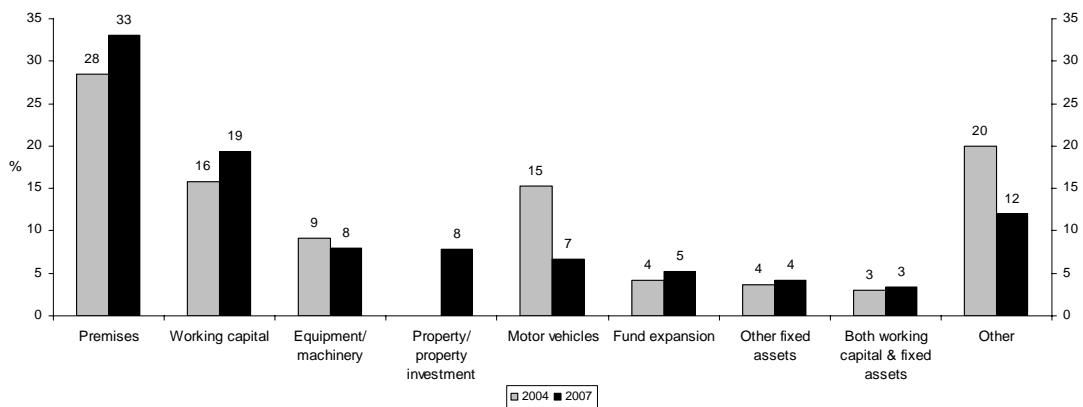
Chart 3.4.1 Number of commercial loans



Bases: All businesses with loans 2004: n=742,139 (Unweighted: n=835); All businesses with loans 2007: n=597,419 (Unweighted: n=557)

Chart 3.4.2 shows, for those businesses that had commercial loans and mortgages, the purpose of the largest loan that was taken in comparison with the findings of the 2004 survey. The need to finance premises and property has risen and the use for funding motor vehicles appears to have fallen, possibly replaced by leasing.

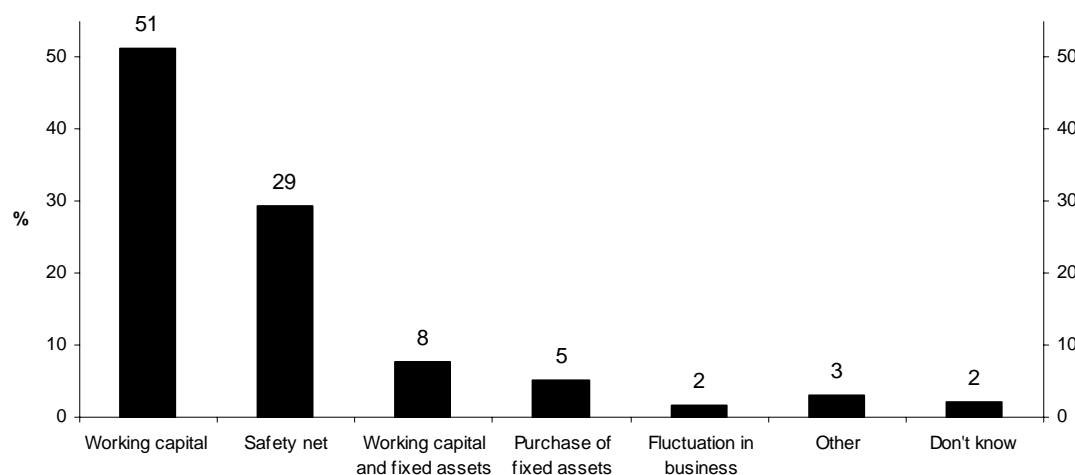
Chart 3.4.2 Purpose of largest loan



Bases: All businesses with term loans reporting values: 2004: n=742,139 (Unweighted: n=835); 2007: n=625,570 (Unweighted: n=602)

Whilst term loans were associated in the main with asset purchases, overdrafts are more strongly associated with working capital needs as we would expect. About 30% of firms also give the need for a safety net as a reason.

Chart 3.4.3 Main purpose of overdraft facility



Bases: All businesses with overdraft facility reporting purpose 2007: n=1,529,092 (Unweighted: n=1,144)

We now turn to the size of margins charged over base rate on variable interest loans and overdrafts. The mean and median margins are presented in Table 3.4.1 below. It appears that margins on term loans are on average somewhat larger than those on overdrafts, particularly if we inspect the medians. It would also appear that margins on term loans have increased somewhat since 2004.

Margins on both term loans and overdrafts are lower for larger businesses and this difference is greater for term loans than for overdrafts. The picture is very interesting within sectors. Construction appears to benefit from lower overdraft margins and the Service sectors appear to be favourably treated in the margins they face for both types of borrowing. When these margins are examined in a multivariate context, the size effect is supported, but the only sectoral effect that is statistically significant is the lower loan margins for the Service sectors.

The margins vary quite widely across the regions with high margins for overdrafts in Scotland and for term loans in the East Midlands. When these differences are explored in a multivariate context taking account of size and sector, we find no significant differences across the regions in terms of overdraft margins. In relation to loan margins they are found to be significantly higher in the South East, the North East and Scotland. This analysis also shows that the average margin on overdrafts and term loans is similar in deprived areas to that found in other areas.

The findings for gender are also puzzling. It appears that female-led businesses benefit from somewhat lower margins on average, but we find the opposite picture for female-owned businesses. These gender differences disappear when examined in a multivariate context.

Table 3.4.1: Average debt margin over base rate

	Overdraft		Term loan	
	Mean	Median	Mean	Median
All businesses 2004	2.4	-	2.2	-
All businesses 2007	2.4	1.6	2.7	3.0
Number of employees				
0	2.5	1.6	3.1	3.0
1-9	2.4	2.0	2.3	3.0
10-49	2.1	1.8	2.1	1.0
50-249	1.9	1.6	1.9	1.0
Turnover(a)				
Less than £50,000	2.7	1.6	2.6	3.0
£50,000-£499,999	2.4	1.6	3.0	3.0
£500,000-£999,999	2.4	2.0	2.9	3.0
£1,000,000+	2.0	1.6	2.1	1.0
Industry				
Agriculture	2.7	2.5	3.2	3.0
Manufacturing	2.4	2.0	3.0	3.0
Construction	1.6	1.6	3.3	3.0
Wholesale/retail	3.1	2.6	5.0	3.0
Service sectors	2.5	1.6	2.1	1.0
Deprivation (15%)				
Deprived area	2.5	1.6	2.0	1.0
Other	2.4	1.6	2.8	3.0
Female leadership				
<50%	2.4	1.6	2.9	3.0
=50%	2.6	2.0	2.3	1.0
>50%	2.2	1.6	2.2	1.0
Female ownership				
<50%	2.5	1.6	2.7	3.0
=50%	2.1	1.6	2.6	3.0
>50%	2.9	2.6	3.0	3.0
Growth firm(b)				
Super growth	2.4	1.6	2.2	3.0
Other	2.3	1.6	2.8	3.0

Bases: 2004: All businesses with overdraft or term loan: Overdraft: n=995,039 (Unweighted: n=1,080); Term loan: n=633,574 (Unweighted: n=735); 2007: All with overdraft or term loan, with variable rate reporting values: Overdraft: n=538,839 (Unweighted: n=481); Term loan: n=280,243 (Unweighted: n=259)

(a) All businesses with overdraft or term loan with variable rate reporting values and turnover: Overdraft: n=474,591 (Unweighted: n=431); Term loan: n=242,486 (Unweighted: n=228)

(b) All businesses with overdraft or term loan with variable rate reporting values and growth state: Overdraft: n=487,732 (Unweighted: n=445); Term loan: n=264,148 (Unweighted: n=232)

The average interest paid on fixed interest rate loans and overdrafts is shown in Table 3.4.2 for both the mean and the median. Fixed interest rates on term loans are also on average somewhat larger than those on overdrafts, reinforcing what was found for debt margins. It would also appear that the fixed interest rates being paid by SMEs have decreased somewhat since 2004.

Fixed interest rates on overdrafts are lower for larger businesses when measured by the mean, but there is no difference in the median interest rate across the size classes in general. The extreme findings for the turnover band £500k - £1m is probably due to the small number of observations in this cell. A more complex picture emerges for the relationship between the level of fixed interest rates on term loans and firm size and this warrants further investigation. However, when these rates were examined in a multivariate context, no statistically significant differences were found between the size classes.

The picture is again interesting within sectors. The difference between the median rate charged for term loans and that charged for overdrafts appears to be greater for Manufacturing, Construction and Agriculture than for Distribution and Service sectors. On the other hand, the sector is not found to be significantly related to these costs of borrowing when examined in a multivariate context.

There does not appear to be much difference in fixed interest rates for businesses in deprived areas in comparison with the rest of the SME population. Both female-led businesses and female-owned businesses have lower fixed interest rates on average. Super growth firms appear to also have lower fixed rates. But none of these differences are found to be statistically significant when size, sector and region are taken into account.

We now turn to the size of overdraft facilities which is reported in Table 3.4.3 for the mean and median. The table suggests that the average SME overdraft facility is much the same as that found in the 2004 survey and that the median is much lower than the mean.

The size of overdraft rises with the size of business as we would expect. Agriculture has the highest average overdraft and Construction the smallest, and the ranking of the other sectors is the same for both the mean and the median. Female-led and female-owned businesses have lower overdrafts on average.

Businesses in deprived areas have higher overdrafts on average when this is measured by the mean, but this is not the case when the median is used as the measure of the average. This suggests that some businesses in deprived areas have very large overdrafts. The super growth firms have larger overdrafts than other firms, but they also had larger deposits. This may suggest that they are larger SMEs on average (see Chapter 8 for further analysis of these businesses).

Table 3.4.4 reports on overdraft fees and security requirements. It shows that 21% of the overdrafts obtained by our SMEs required some form of security backing. In addition, 59% of those obtaining overdrafts had to pay arrangement fees.

Table 3.4.2: Average fixed interest rate

	Overdraft		Term loan	
	Mean	Median	Mean	Median
All businesses 2004	6.4	6.8	7.0	6.9
All businesses 2007	4.6	5.0	5.7	6.0
Number of employees				
0	4.6	5.0	6.0	6.5
1-9	4.8	5.0	5.3	5.0
10-49	4.0	5.0	5.2	5.0
50-249	4.2	5.0	5.8	5.8
Turnover(a)				
Less than £50,000	4.4	5.0	5.6	6.0
£50,000-£499,999	4.8	5.0	5.8	7.0
£500,000-£999,999	6.8	9.0	5.3	5.0
£1,000,000+	4.3	5.0	5.7	6.0
Industry				
Agriculture	4.0	5.0	5.3	6.9
Manufacturing	5.1	5.0	5.6	7.0
Construction	4.4	2.0	5.9	6.0
Wholesale/retail	6.0	5.5	5.1	6.0
Service sectors	4.5	5.0	5.9	5.0
Deprivation (15%)				
Deprived area	4.8	5.0	5.1	6.2
Other	4.6	5.0	5.8	6.0
Female leadership				
<50%	5.0	5.0	5.8	6.5
=50%	4.0	5.0	5.1	5.0
>50%	3.2	2.0	5.5	6.0
Female ownership				
<50%	4.9	5.0	5.8	6.3
=50%	4.0	5.0	5.2	5.0
>50%	3.5	2.0	5.5	6.0
Growth firm(b)				
Super growth	4.7	2.0	5.8	5.0
Other	4.9	5.0	5.8	6.7

Bases: 2004: Overdraft: n=995,039 (Unweighted: n=1,080); Term loan: n=633,574 (Unweighted: n=735);

All businesses with overdraft or term loan with fixed rate reporting values 2007: Overdraft: n=299,766 (Unweighted: n=260); Term loan: n=186,265 (Unweighted: n=186)

(a) All businesses with overdraft or term loan reporting values and turnover: Overdraft: n=280,475 (Unweighted: n=233); Term loan: n=175,956 (Unweighted: n=167)

(b) All businesses with overdraft or term loan reporting values and growth state: Overdraft: n=247,033 (Unweighted: n=227); Term loan: n=163,714 (Unweighted: n=162)

Table 3.4.3: Size of overdraft facility

	No. in sample	Mean (£)	Median (£)
All businesses 2004	1,576	36,495	-
All businesses 2007	655	34,317	4,000
Number of employees			
0	112	11,413	3,000
1-9	194	60,080	15,000
10-49	220	141,659	50,000
50-249	129	522,824	250,000
Turnover			
Less than £50,000	89	10,511	2,000
£50,000-£499,999	169	22,437	6,000
£500,000-£999,999	77	38,504	30,000
£1,000,000+	251	236,420	60,000
Industry			
Agriculture	58	73,474	15,000
Manufacturing	53	47,129	5,000
Construction	152	14,158	3,000
Wholesale/retail	75	48,207	6,000
Service sectors	317	36,107	3,500
Deprivation (15%)			
Deprived area	135	59,447	3,000
Other	520	29,699	5,000
Female leadership			
<50%	468	34,472	4,000
=50%	80	62,623	15,000
>50%	103	19,765	3,000
Female ownership			
<50%	445	30,053	4,000
=50%	112	103,076	15,000
>50%	71	14,002	3,000
Growth firm			
Super growth	102	46,059	10,000
Other	462	32,626	4,000

Bases: 2004: All businesses with overdraft: n=1,764,517 (Unweighted: n=1,576);
2007: All businesses with overdraft reporting values: n=958,440 (Unweighted: n=655)

Table 3.4.4: Overdraft fees and security

Overdraft arrangements	
% requiring security	21%
% paying arrangement fee	59%

Base: All businesses with an overdraft: n=1,529,092 (Unweighted: n=1,144)

Turning now to term loans and mortgages, Table 3.4.5 shows details of their average size and the loan arrangements. If all outstanding loans and mortgages held by the firm are taken together, the mean value is £301,500 and the median is £75,000. About 56% of those with these loans had to provide some form of security and 64% of them had to pay arrangement fees. Only 2% of the loans were taken out under the auspices of the Government's Small Firms Loan Guarantee scheme.

Table 3.4.5: Loans/mortgages

Amount outstanding(a)	
Mean(£)	301,480
Median(£)	74,999
Loan arrangements(b)	
% requiring security	56%
% paying arrangement fee	64%
% obtained under SFLG scheme	2%

Bases: (a) All businesses with commercial loan/mortgage reporting values: n=481,073 (Unweighted: n=450)
(b) All businesses with commercial loan/mortgage: n=645,962 (Unweighted: n=628)

The size of the firm's largest term loan is reported in Table 3.4.6 for the mean and the median. The table suggests that the average size of the SME's largest term loan was larger in 2007 than that found in the 2004 survey. The small cell sizes should be noted.

The size of term loan rises with firm size as we would expect. Construction and the Service sectors have the highest average term loan; and these are markedly higher than found in the other sectors. Female-led and female-owned businesses have lower term loans on average, the same as we found for overdrafts.

Businesses in deprived areas have lower term loans when measured by the mean, but a higher median level; and this is the opposite to what we found for overdrafts. Super growth firms have higher term loans, but this could be related to their size.

Table 3.4.6: Size of largest term loan

	No. in sample	Mean(£)	Median(£)
All businesses 2004	844	99,635	
All businesses 2007	342	277,624	59,000
Number of employees			
0	40	157,018	53,000
1-9	100	376,056	120,000
10-49	124	704,866	200,000
50-249	78	1,251,217	600,000
Turnover			
Less than £50,000	34	71,709	17,000
£50,000-£499,999	98	186,888	59,000
£500,000-£999,999	39	158,385	120,000
£1,000,000+	149	1,105,487	250,000
Industry			
Agriculture	29	84,273	17,000
Manufacturing	31	71,162	30,000
Construction	46	161,555	200,000
Wholesale/retail	34	96,689	21,000
Service sectors	202	416,433	120,000
Deprivation (15%)			
Deprived area	71	207,667	100,000
Other	271	290,305	59,000
Female leadership			
<50%	222	255,673	59,000
=50%	72	279,211	147,000
>50%	45	117,578	12,000
Female ownership			
<50%	216	301,360	59,000
=50%	75	271,819	140,000
>50%	41	112,910	12,000
Growth firm			
Super growth	59	426,083	120,000
Other	242	266,569	59,000

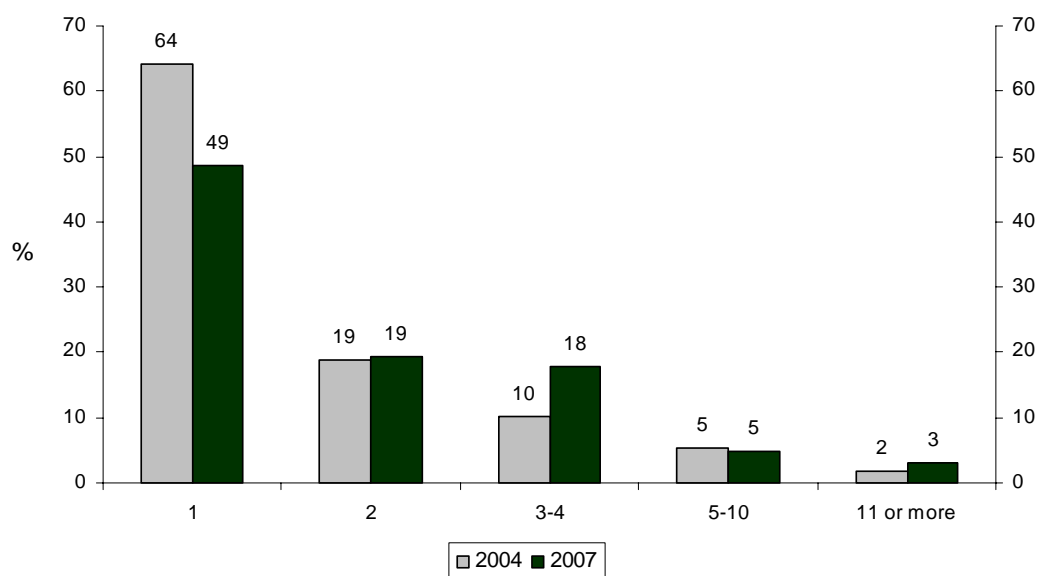
Bases: All businesses with term loan or mortgage 2004: n=770,132 (Unweighted: n=844);

All businesses with term loan or mortgage reporting values 2007: n=408,461 (Unweighted: n=342)

3.5 Leasing and Hire Purchase

This section explores the use of leasing and hire purchase finance by SMEs. In Section 3.1 we showed a decline in the percentage using this form of finance from 27% in 2004 to 18% in 2007. On the other hand, Chart 3.5.1 shows that the number of leasing/HP agreements held by SMEs has increased slightly since 2004. About one-half of the SMEs with such agreements have only one, but this is down from two-thirds in the 2004 survey.

Chart 3.5.1 Number of HP/leasing agreements



Bases: All with HP/leasing agreements 2004: n=672,331 (Unweighted: n=926); All with HP/leasing agreements reporting values 2007: n=593,714 (Unweighted: n=1,144)

In Table 3.5.1 we look at the 18% of firms using leasing or hire purchase agreements as a form of finance. It must be remembered that the proportion using leasing/HP has fallen from 27% in the 2004 survey (see Table 3.1.2). For these firms it shows the proportion using either, or both, of these types of finance. If we look first at the top of the table we can see that the proportion using leasing finance has risen since 2004. The proportion using just leasing has increased from 33% to 37% but, added to this, the proportion using both types of asset finance has risen from 8% to 22%. The proportion using hire purchase alone has fallen from 58% to 36% suggesting that a markedly lower proportion of firms now use it (whether alone, or in combination with leasing) compared with 2004.

The larger the firm, the more likely it is to be using leasing, but there is not much change in the use of hire purchase across firm size. Agriculture is the highest user of hire purchase and the Service sectors and Manufacturing are the greatest users of leasing finance. Leasing finance is used somewhat more, and hire purchase a little less, in the deprived areas and the same is true for businesses with female leaders and super growth firms. It is possible that these can be accounted for by size and sector variations.

Table 3.5.1: Types of asset finance used

	Leasing	Hire purchase	Both	Don't know
All businesses 2004	33%	58%	8%	1%
All businesses 2007	37%	36%	22%	4%
Number of employees				
0	36%	41%	19%	4%
1-9	38%	35%	23%	4%
10-49	41%	27%	29%	4%
50-249	32%	25%	42%	1%
Turnover(a)				
Less than £50,000	38%	52%	10%	0%
£50,000-£499,999	29%	44%	19%	7%
£500,000-£999,999	49%	29%	20%	2%
£1,000,000+	38%	23%	36%	3%
Industry				
Agriculture	18%	52%	30%	0%
Manufacturing	31%	34%	30%	5%
Construction	25%	47%	19%	9%
Wholesale/retail	38%	41%	21%	0%
Service sectors	45%	29%	22%	3%
Deprivation (15%)				
Deprived area	41%	36%	22%	1%
Other	37%	37%	22%	5%
Female leadership				
<50%	32%	42%	23%	4%
=50%	37%	34%	25%	3%
>50%	66%	11%	19%	5%
Female ownership				
<50%	30%	43%	23%	4%
=50%	40%	33%	23%	5%
>50%	76%	7%	17%	1%
Growth firm(b)				
Super growth	50%	11%	39%	0%
Other	33%	44%	20%	4%

Bases: Businesses using leasing/HP 2004: n=679,323 (Unweighted: n=938); Businesses using leasing/HP 2007: n=596,831 (Unweighted: n=798)

(a) Businesses using leasing/HP reporting turnover: n=539,904 (Unweighted: n=684)

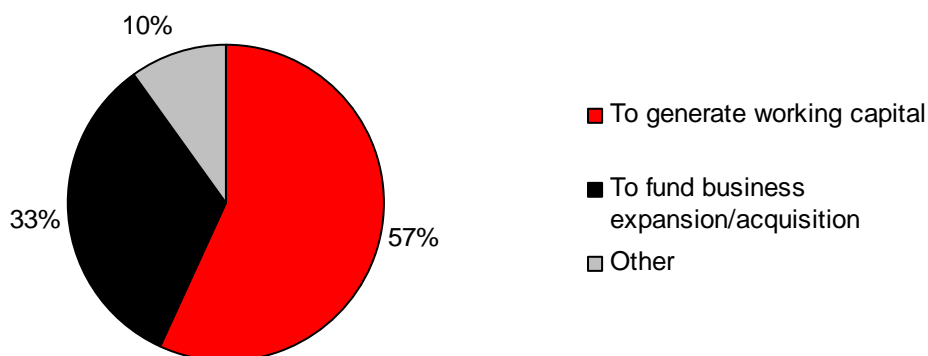
(b) Businesses using leasing/HP reporting growth status: n=519,753 (Unweighted: n=709)

3.6 Factoring, Invoice Discounting, and Stock Finance

This section explores the use of factoring, invoice discounting and stock finance by SMEs. We examine the purpose of this sort of finance, the frequency of use of each type, and the amount of finance involved.

Chart 3.6.1 shows that the majority of users of invoice finance used it to fund their working capital needs, but one-third do use it for capital purposes.

Chart 3.6.1 Main purpose of using invoice finance



Bases: All businesses with invoice/leasing finance reporting purpose 2007: n=29,162 (Unweighted: n=83)

The types of asset-based finance used by those who use at least one form of this sort of finance are shown in Table 3.6.1 below. The comparison with 2004, and the full analysis of the various groups, are hampered by the cell sizes and the proportion of the Don't Know and Other categories.

Table 3.6.1: Types of asset based finance used

	Invoice discounting	Factoring	Stock finance	Don't know	Other
All businesses 2004	49%	36%	7%	6%	-
All businesses 2007	18%	8%	9%	41%	25%

Base: Businesses using asset based finance 2004: n=66,186 (Unweighted: n=158); 2007: n=115,552 (Unweighted: n=180)

Table 3.6.2 shows the percentage of unpaid invoices typically represented by invoice discounting and factoring. Only 55 businesses answered this question and so little confidence can be attached to the findings.

Table 3.6.2: Amount of invoice finance (% of unpaid invoices)

	Invoice discounting		Factoring	
	Mean(%)	Median(%)	Mean(%)	Median(%)
All businesses 2004	45%	63%	56%	78%
All businesses 2007	43%	25%	53%	55%

Bases: Businesses using asset finance 2004: n=66,186 (Unweighted: n=158);
Businesses using asset finance reporting values 2007: Invoice discounting: n=15,023 (Unweighted: n=55)

Table 3.6.3 shows instead the amount of invoice finance received. Again, it must be said that with only 21 answers, no confidence can be attached to these findings.

Table 3.6.3 Amount of invoice finance (£ monthly average and total advances)

	Mean(£)	Median(£)	Total advances (Billions £)
All businesses 2004	145,974	-	7.8
All businesses 2007	79,443	20,000	0.6

Bases: Businesses using asset finance 2004: n=66,186 (Unweighted: n=158);
Businesses using asset finance reporting values 2007: n=7,450 (Unweighted: n=21)

3.7 Credit Cards

This section explores the use of personal and business credit cards by SME business leaders in relation to running their firms. We examine the purpose of this sort of finance, whether personal, or business credit cards are used and the scale of monthly business expenses charged to the cards.

We saw earlier in Table 3.1.2 that the use of credit cards, whilst still commonplace, was somewhat lower in 2007 than in the 2004 survey. Table 3.7.1 shows the purposes for which credit cards were used by these businesses split between personal and business credit cards. There are few differences between business and personal cards in their purpose.

The five most common uses are the same in 2004 and 2007 for both types of credit card. The purchase of raw materials is the most common use, possibly due to the lack of credit facilities with their suppliers. The other most common uses are business expenses of one type, or another (i.e. travel and subsistence, motor expenses and sundry expenses). The fifth most common use is for the purchase of equipment or vehicles.

In 2007, the purchase of raw materials is a more common use, and motor expenses a less common use, than in 2004.

Table 3.7.1: Purpose of using credit cards

	Personal 2004	Business 2004	Personal 2007	Business 2007
Raw materials	39%	42%	47%	47%
Travel and subsistence	39%	36%	38%	43%
Motor expenses	39%	40%	32%	33%
Sundry expenses	25%	24%	20%	25%
Buying equipment/vehicles	13%	12%	14%	16%
Other fixed assets	5%	5%	12%	6%
Other working capital	6%	7%	10%	8%
Utility bills	4%	4%	5%	6%
Advertising	-	-	3%	2%
Insurance	-	-	2%	0%
Rent and rates	3%	1%	2%	6%
Client entertaining	2%	3%	0%	0%
Other	-	-	4%	2%
Don't know	-	-	4%	1%
Number in sample	508	1,157	281	1,052

Bases: All businesses using credit cards 2004: Personal: n=1,032,538 (Unweighted: n=508); Business: n=1,218,289 (Unweighted: n=1,157);

All businesses using credit cards reporting purpose 2007: Personal: n=589,118 (Unweighted: n=281); Business: n=1,154,198 (Unweighted: n=1,052)

For those businesses using credit cards, Table 3.7.2 shows the percentage using personal credit cards and the proportion using business credit cards – a firm can use both and so the percentages sum to more than 100%. There appears to have been a switch from personal credit cards to business credit cards since the last survey. SME firms using credit cards in 2007 were twice as likely to be using a business credit card as to be using a personal card.

The use of a personal card falls (from 40% of zero employee firms to 11% for the largest SME size group) and the use of a business credit card rises (from 67% of zero employee firms to 95% for the largest SME size group) with firm size. Personal cards are most prevalent in Agriculture and business credit cards are most common in Construction and Distribution.

There are no differences in the choice of personal rather than business credit cards in deprived area firms, or in female run businesses, but super growth firms are more likely to use the latter form.

Table 3.7.2 : Use of personal/business credit cards

	Use personal credit cards	Use business credit cards
All businesses 2004	52%	61%
All businesses 2007	37%	72%
Number of employees		
0	40%	67%
1-9	34%	80%
10-49	15%	91%
50-249	11%	95%
Turnover(a)		
Less than £50,000	47%	58%
£50,000-£499,999	34%	75%
£500,000-£999,999	43%	83%
£1,000,000+	26%	89%
Industry		
Agriculture	51%	55%
Manufacturing	47%	64%
Construction	30%	79%
Wholesale/retail	36%	80%
Service sectors	37%	70%
Deprivation (15%)		
Deprived area	35%	74%
Other	37%	72%
Female leadership		
<50%	37%	71%
=50%	34%	78%
>50%	35%	73%
Female ownership		
<50%	37%	71%
=50%	36%	77%
>50%	37%	72%
Growth firm(b)		
Super growth	22%	81%
Other	37%	73%

Bases: All businesses using credit cards 2004: n=2,005,996 (Unweighted: n=1,527);

All businesses using credit cards 2007: n=1,606,161 (Unweighted: n=1,239)

(a) All businesses using credit cards reporting turnover: n=1,354,003 (Unweighted: n=1,029)

(b) All businesses using credit cards reporting growth status: n=1,213,562 (Unweighted: n=1,063)

Finally, in Table 3.7.3 we examine the monthly business expenses charged to personal and business credit cards. The table provides both the mean and median amounts. It also grosses up these amounts to the total SME population using the mean for comparison with 2004. The comparison with 2004 suggests very little change over the last three years. The mean is about the same for business credit cards, but the expenses charged to personal credit cards has increased, but then their use has become less common.

The amounts charged rise with firm size, but so does the switch from personal to business credit card use. Agriculture has the highest mean amount charged to personal credit cards and Manufacturing the highest charged to business credit cards and the highest average amounts charged to both.

Firms operating in deprived areas do not show a consistently different pattern of credit card usage than businesses in other areas. Female business leaders show somewhat lower expenditures on their credit cards. On the other hand, super growth firms have higher use on average of both personal and business credit cards.

3.8 Multivariate Analysis

In this section we pull together the key findings of the chapter relating to the use of financial products and present the findings of the multivariate analysis. In particular, we can assess whether the differences between the regions can be explained by factors such as the size and sectoral composition of their SMEs. In Table 3.8.1 negative signs indicate that the factor in that row had an inverse effect on the likelihood of taking up that form of finance. A positive figure indicates a direct effect. The size of the effects is indicated by the size of the number. However, only those figures with one or more asterisks have any degree of statistical significance.

We found above that the use of overdrafts increased with firm size and was most common in Agriculture and least common amongst Distribution firms. In the first column of Table 3.8.1 a probit analysis of what factors are associated with the uptake of overdrafts is presented. It shows that when all of our key variables are included, firm size remains an important determinant – zero employees businesses are the default case here and each of the other size classes have a significant impact on the likelihood of taking an overdraft in comparison with zero employee businesses; and with medium-sized businesses much greater than the others. On the other hand, whilst the sectors have the signs we would expect from the earlier analysis (with Manufacturing as the comparison), the sectoral differences are not statistically significant once other factors are taken into account.

The use of overdrafts varied between 32% in the North East to 55% in Northern Ireland. Although the probit model coefficients support this variety, none of them is significant in a multivariate context (the comparison case here is the West Midlands). The lower uptake of overdrafts in deprived areas, on the other hand, is confirmed as statistically significant.

Table 3.7.3: Monthly business expenses charged to personal and business credit cards

	Personal credit cards			Business credit cards		
	Mean(£)	Median(£)	Total (Billions £)	Mean(£)	Median(£)	Total (Billions £)
All businesses 2004	433		0.45	1,147		1.40
All businesses 2007	736	200	0.37	1,096	375	1.08
No of employees						
0	659	200	0.24	746	300	0.45
1-9	791	375	0.10	1,249	400	0.38
10-49	2,561	1,750	0.03	2,802	1200	0.19
50-249	2,023	500	0.00	3,517	2,000	0.07
Turnover(a)						
Less than £50,000	345	125	0.07	538	375	0.13
£50,000-£499,999	754	500	0.13	1020	375	0.42
£500,000-£999,999	511	200	0.02	1456	750	0.09
£1,000,000+	2,495	2,000	0.11	2514	1,000	0.37
Industry						
Agriculture	904	125	0.03	415	250	0.01
Manufacturing	588	125	0.02	1,979	1000	0.13
Construction	767	500	0.07	1,070	375	0.21
Wholesale/retail	529	200	0.04	1,618	750	0.23
Service sectors	785	125	0.21	905	375	0.50
Deprivation (15%)						
Deprived area	451	300	0.03	1,270	375	0.17
Other	773	200	0.35	1,069	400	0.92
Female leadership						
<50%	728	200	0.26	1,175	500	0.83
=50%	1,130	500	0.06	1,096	300	0.13
>50%	488	125	0.04	746	300	0.11
Female ownership(b)						
<50%	714	200	0.26	1,185	450	0.85
=50%	1,221	375	0.07	870	300	0.10
>50%	494	125	0.04	784	200	0.11
Growth firm(c)						
Super growth	1,381	1,000	0.24	1,384	750	0.16
Other	781	375	0.05	1,169	400	0.76

Bases: All businesses using credit cards 2004: Personal: n=1,032,538 (Unweighted: n=508); Business: n=1,218,289 (Unweighted: n=1,157);
All businesses using credit cards reporting values 2007: Personal: n=504,419 (Unweighted: n=232); Business: n=986,027 (Unweighted: n=916)
(a) All businesses using credit cards reporting values and turnover: Personal: n=451,222 (Unweighted: n=206); Business: n=861,890 (Unweighted: n=803)
(b) All businesses using credit cards reporting values and ownership: Personal: n=503,170 (Unweighted: n=227); Business: n=972,064 (Unweighted: n=871)
(c) All businesses using credit cards reporting values and growth status: Personal: n=341,442 (Unweighted: n=182); Business: n=768,561 (Unweighted: n=812)

In terms of the other characteristics of businesses and their owners we find that the use of overdrafts is significantly less common amongst new firms (started within the last two years); more common for those owners with lower educational qualifications and for businesses that have carried out business improvements in the last three years. The use of overdrafts is also associated with having some form of advice. Advice from an accountant, or from some other source (e.g. bank manager), is significantly associated with the use of overdrafts by comparison with firms taking no advice. Although we found earlier a lower use on average of overdrafts by businesses run by females, this finding appears to be due to the type of businesses they run and not to gender as such.

The next column in Table 3.8.1 concerns the use of term loans and mortgages. It confirms our earlier results concerning the increasing use of these as firm size increases and also shows that the lower level of their use in Construction is statistically significant. Their use across the regions varied from 6% in the North East and 15% in the West Midlands to 28% in the East Midlands. Since the West Midlands is the comparison region, we would expect most of the regions to show positive coefficients and this is indeed the case. In fact, even allowing for other factors, the South West, East Midlands, Yorkshire and Humber, the North West, Wales and Scotland all show a significantly greater use of loans and mortgages than in the West Midlands.

New firms are less likely, and business improvers and those taking advice are more likely, to make use of term loans and mortgages. The gender of the business owner/leader has no impact on the use of this form of finance.

The third column of Table 3.8.1 examines the use of leasing and hire purchase finance. Their use, like other forms of finance, also rises sharply with firm size and this effect is highly significant. No statistically significant differences are found between the sectors. The use of leasing/HP varied from 12% to 32% across the regions and, whilst the coefficients do show this variation, none is statistically significant. It is significantly less likely to be used in deprived areas.

New firms are less likely and business improvers more likely to use leasing/HP; and the use of the web for trading is also associated with this form of finance. Advice from others is less strongly associated with this form of finance, but advice from accountants is still significant at the 10% level.

The final column examines factoring, invoice discounting and stock finance. There is a significant and positive association with firm size and our finding of a much lower use in Agriculture is shown to be significant on a multivariate basis. The use of this form of finance was much lower in Wales and this is shown to be statistically significant even after allowing for other factors such as size and sector.

Two other findings are noteworthy. First, the relationship of the use of this form of finance and firm age appears to not be monotonic in that its greatest use appears in the two to ten year old category. Second, this form of finance is associated with the firm having someone who is financially qualified managing the finances.

Table 3.8.1 Use of this finance in last three years

Probit regression analysis	Overdraft	Loans & mortgages	Leasing and HP	Factoring etc.
Number of employees(a)				
1-9	0.37***	0.47***	0.55***	0.32**
10-49	0.48***	0.64***	1.05***	0.80***
50-249	0.71***	0.83***	1.23***	1.10***
Industry(a)				
Construction	0.08	-0.25**	0.08	0.00
Distribution	-0.04	-0.16	-0.11	-0.01
Business services	-0.02	0.07	-0.09	0.04
Other services	0.02	0.16	-0.01	-0.14
Agriculture	0.11	-0.11	0.06	-0.41*
Region(a)				
London	0.01	0.12	-0.23	-0.08
South East	-0.01	0.19	0.14	-0.20
East	0.08	0.18	0.18	-0.31
South West	0.16	0.40***	0.05	-0.11
East Midlands	0.05	0.39***	0.00	-0.30
Yorkshire and Humber	0.07	0.30**	-0.15	-0.08
North West	0.22	0.45***	0.05	-0.34
North East	-0.19	-0.08	-0.17	-0.31
Wales	0.07	0.49***	0.02	-0.55**
Scotland	0.19	0.29*	0.05	0.12
N Ireland	0.19	0.22	0.06	-0.02
Deprived area	-0.22***	-0.09	-0.13*	-0.03
Business factors				
Female led	-0.06	0.00	-0.06	0.19
New firm	-0.34***	-0.31**	-0.32***	-0.33*
Old firm	0.09	-0.05	0.10	-0.20**
No A' level	0.19***	0.07	0.04	0.03
Owner has degree	0.05	0.10	-0.04	-0.15
Finance qualified	0.03	0.07	0.10	0.38***
Business improver	0.16***	0.21***	0.27***	0.06
Exporter	-0.07	0.03	-0.08	0.17
Web for trading	-0.02	0.04	0.15**	-0.03
Accountant advice	0.14**	0.18**	0.13*	0.01
Other advice	0.30**	0.27***	0.09	0.12
Observations	2,080	2,079	2,083	2,070
Chi ²	187.5	220.2	385.5	166.5
Pseudo R ²	0.07	0.09	0.14	0.13

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

The determinants of the use of two other forms of finance – grants and credit cards - are explored in Table 3.8.2; and this table also examines the provision of free banking. The first column confirms that small and medium-sized businesses are significantly more likely to benefit from grants than businesses with less than ten employees. We found that Agriculture had the highest proportion of firms benefiting from grants and it is the only sector with a positive coefficient when compared with Manufacturing, the base case. All the other sectors have a lower grant uptake compared with Manufacturing and the difference is statistically significant in the case of Other services.

When examining the use of grants across the regions in a multivariate context, taking account of firm size, age and sector, we find a lower use of grants in London and the South East and a significantly higher use in Scotland and Wales. In contrast to other forms of finance, new firms are more likely to benefit from grants, as are business improvers. Whilst the coefficient for female-led businesses is positive, in support of our earlier findings, it is not statistically significant. Advice from an accountant is weakly associated with the use of grants.

The second column of Table 3.8.2 examines the use of credit cards, either business or personal. Small and medium-sized businesses are significantly more likely to use credit cards than businesses with less than ten employees. We found earlier that Manufacturing businesses exhibited the highest use of credit cards and this is confirmed by the negative coefficients for the other sectors, with Agriculture shown as a significantly lower user than Manufacturing. London and the South East have higher proportions, and deprived areas have lower proportions, of SMEs using credit card finance.

New firms have lower use, and business improvers and those with finance-qualified managers have higher use, of credit card finance. As we might expect, the use of credit cards is associated with the use of the web for trading and with advice from others such as a bank manager.

The final column of Table 3.8.2 examines the determinants of free banking. It shows that this is negatively related to firm size and age – it is most prevalent amongst new, zero employee businesses. There is a weak sectoral pattern with Other services most likely to benefit from free banking.

Table 3.8.2 Use of this finance in last three years

Probit regression analysis	Grants	Credit card	Free banking
Number of employees(a)			
1-9	0.17	0.04	-0.40***
10-49	0.45***	0.44***	-0.78***
50-249	0.79***	0.74***	-1.10***
Industry(a)			
Construction	-0.23	-0.03	-0.06
Distribution	-0.26	-0.16	-0.02
Business services	-0.19	-0.12	0.10
Other services	-0.30**	-0.14	0.25*
Agriculture	0.25	-0.27*	0.17
Region(a)			
London	-0.97***	0.24*	0.04
South East	-0.47**	0.23*	0.05
East	-0.04	0.00	-0.03
South West	-0.11	0.13	0.06
East Midlands	0.06	0.09	0.11
Yorkshire and Humber	-0.23	0.18	-0.03
North West	0.01	-0.01	-0.16
North East	0.21	0.07	0.09
Wales	0.31*	0.01	0.04
Scotland	0.37**	0.22	-0.11
N Ireland	0.19	-0.15	0.22
Deprived area	0.01	-0.13*	0.00
Business factors			
Female led	0.15	-0.07	0.06
New firm	0.29**	-0.19**	0.64***
Old firm	0.04	0.06	-0.12
No A' level	-0.04	-0.08	0.01
Owner has degree	0.16*	-0.09	0.08
Finance qualified	0.14	0.15**	0.15*
Business improver	0.38***	0.17***	-0.08
Exporter	0.07	0.12	-0.13
Web for trading	0.05	0.18***	-0.12
Accountant advice	0.20*	0.02	-0.05
Other advice	0.15	0.15**	-0.06
Observations	2,082	2,087	1,853
Chi ²	180.5	235.6	250.5
Pseudo R ²	0.13	0.08	0.13

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

Executive Summary

- *This chapter analyses the use and cost of external finance over the previous three years. The proportion of SMEs using external finance has fallen from 81% in 2004 to 69% in 2007 and a higher proportion are using just one product than was found three years earlier.*
- *There has been a decline in the use of most forms since 2004. Credit cards and overdrafts remain the most common, but even for these the proportion is about 10 percentage points lower than in 2004. The use of leasing/HP finance has shrunk to the same level of use as commercial loans and mortgages, at just under 20% of firms. The use of other forms of finance remains low.*
- *Deprived areas make lower use of overdrafts, credit cards and leasing/HP. Female owned and led businesses both show a lower recourse to every form of external finance other than grants.*
- *The super growth firms make greater use of every form of external finance other than equity, which is rarely used as a source of new finance by any SME. The contrast between the super growth and the others is greatest in the use of commercial loans, leasing/HP and factoring/invoice discounting.*
- *The majority of firms stated that there had been no change between 2004 and 2007 in the ease of obtaining each source and this was highest for asset-based finance. Whilst the lowest proportion, 69% for unchanged difficulty was given to overdrafts, the firms were equally divided over whether it had become easier or more difficult. A similar picture emerged for commercial loans and mortgages.*
- *The biggest changes were noted in three areas. Credit card finance and leasing or hire purchase finance were seen as having become easier to obtain. On the other hand, grants were noted as more difficult to get by 18% of the firms.*
- *The market share of the Top 4 in the SME sector appears to have fallen modestly from 78% in 2004 to 76% in the 2007 survey. The Top 4 exhibit lower market shares in the deprived areas and amongst super growth firms.*
- *The mean length of relationship with the main financial provider is 12 years and the median is 7 years. As might be expected, the length of the relationship increases with firm size and is markedly longer in Agriculture.*
- *The main bank was generally the sole provider of current accounts and overdrafts. On the other hand, a significant proportion (15%) of firms held deposit accounts in addition to the one with their main bank. 19% of firms with commercial loans and mortgages did not get them from their main bank; and in only two-thirds of the cases was the bank the sole provider. The picture for credit cards is similar to that for commercial loans and mortgages.*
- *About one-third of SMEs benefit from free banking and this is inversely related to firm size. About one-half of the firms do pay charges, but receive interest on their credit balances and this arrangement is more common for larger SMEs.*

- *The proportion of SMEs with deposit accounts is about the same as that found in 2004 at 40% of businesses. The SME population mean for these account holders is £118,600, a rise from the level of £61,000 found in 2004. However, the median is very much lower at £7,500, so the majority of these accounts have modest holdings.*
- *Although the majority of firms with commercial loans and overdrafts have only one of them, it is clear that the number of loans held by SMEs has risen since 2004. Whilst term loans were associated in the main with asset purchases, overdrafts are more strongly associated with working capital needs as we would expect. About 30% of firms also give the need for a safety net as a reason.*
- *The average size of SME overdraft facilities is much the same as that found in the 2004 survey and the median is much lower than the mean. The size of overdraft rises with firm size as we would expect. Agriculture has the highest average overdraft and Construction the smallest. Female-led and female-owned businesses have lower overdrafts on average.*
- *21% of the overdrafts obtained by our SMEs required some form of security backing. In addition, 59% of those obtaining overdrafts had to pay arrangement fees. About 56% of those with term loans had to provide some form of security and 64% of them had to pay arrangement fees. Only 2% of the loans were taken out under the auspices of the Government's Small Firms Loan Guarantee.*
- *The proportion using leasing/HP has fallen from 27% in the 2004 survey to 18% in 2007. The use of leasing has risen, but there has been a drop in the use of hire purchase. The larger the firm, the more likely it is to be using leasing, but there is not much change in the use of hire purchase across firm size.*
- *The proportion of SMEs using factoring, invoice discounting and stock finance remains low, 4% in 2007 compared with 3% in 2004. Its use increases with firm size and one-fifth of the largest employment group make use of this form of finance. The majority of users of invoice finance used it to fund their working capital needs, but one-third do use it for capital purposes.*
- *The use of credit cards, whilst still commonplace, was somewhat lower in 2007 than in the 2004 survey, at 43% of SMEs compared with 55%. The purposes for which credit cards were used by these businesses are similar for personal and business credit cards. The five most common uses are the same in 2004 and 2007 for both types of credit card.*
- *The monthly business expenses charged to personal and business credit cards shows very little change over the last three years. The mean is about the same for business credit cards, but the expenses charged to personal credit cards has increased, but then their use has become less common.*
- *A probit analysis of what factors are associated with the uptake of overdrafts shows that when all of our key variables are included, firm size remains a key determinant. On the other hand, sectoral differences are not statistically significant once other factors are taken into account.*

- *Region is not a statistically significant explanatory variable for the uptake of overdrafts. The lower uptake of overdrafts in deprived areas, on the other hand, is confirmed as statistically significant.*
- *The use of term loans and mortgages increases with firm size and is less common in Construction. Even allowing for other factors, the South West, East Midlands, Yorkshire and Humber, the North West, Wales and Scotland all show a significantly greater use of loans and mortgages than in the West Midlands, our comparison region.*
- *The use of leasing and hire purchase finance also rises sharply with firm size. No statistically significant differences are found between the sectors. The use of leasing/HP varied from 12% to 32% across the regions and, whilst the coefficients do show this variation, none is statistically significant. It is significantly less likely to be used in deprived areas.*
- *Factoring, invoice discounting and stock finance show a positive association with firm size and we find the much lower use in Agriculture to be significant on a multivariate basis. The use of this form of finance was much lower in Wales and this is shown to be statistically significant even after allowing for other factors such as size and sector.*
- *We find that small and medium-sized businesses are significantly more likely to benefit from grants than businesses with less than ten employees. Agriculture has the highest proportion of firms benefiting from grants. All the other sectors have a lower grant uptake compared with Manufacturing and the difference is statistically significant in the case of Other services.*
- *When examining the use of grants across the regions in a multivariate context, taking account of firm size, age and sector, we find a lower use of grants in London and the South East and a significantly higher use in Scotland and Wales.*
- *Small and medium-sized businesses are significantly more likely to use credit cards than businesses with less than ten employees. We found earlier that Manufacturing businesses exhibited the highest use of credit cards and this is confirmed by the negative coefficients for the other sectors, with Agriculture shown as a significantly lower user than Manufacturing. London and the South East have higher proportions, and deprived areas have lower proportions, of SMEs using credit card finance.*
- *In terms of the other characteristics of businesses and their owners we find that the use of all forms of finance other than grants; and the use of all forms of finance other than factoring etc. is significantly greater for businesses that have carried out business improvements in the last three years. The use of external advice is often associated with the take up of external finance. The gender of the business owner/leader has no impact on the use of external sources of finance.*
- *Finally, we examined the determinants of the provision of free banking. We showed that this is negatively related to firm size and age – it is most prevalent amongst new, zero employee businesses. There is a weak sectoral pattern with Other services most likely to benefit from free banking.*

4 New Finance Sought

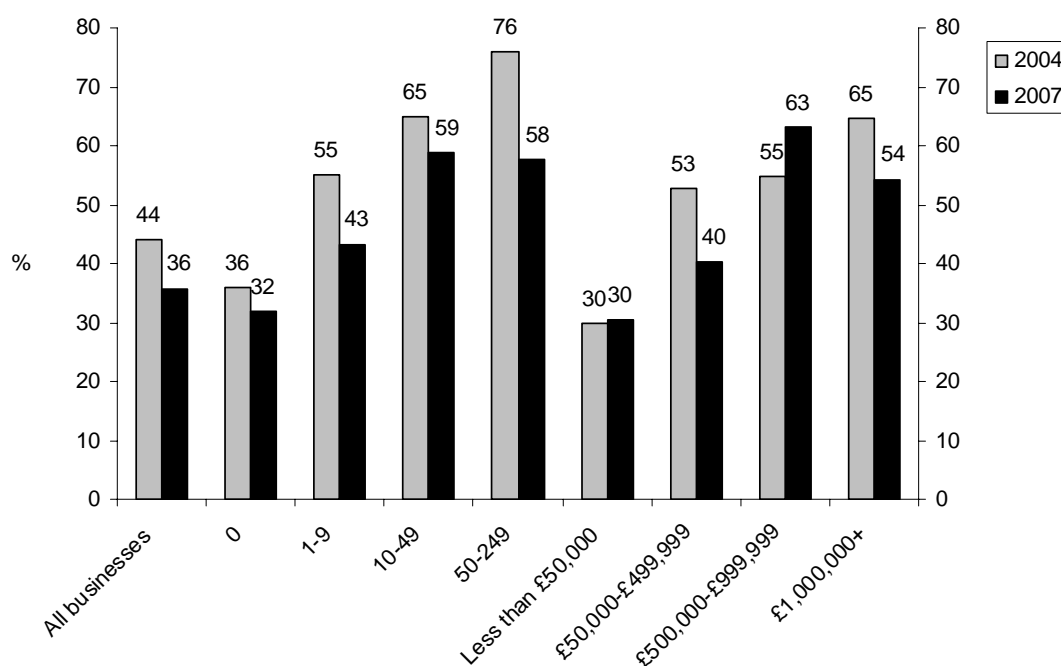
The previous chapter examined the use of financial products over the previous three years. This chapter examines the proportion of firms seeking new external finance in the last three years, the type of finance sought and their success in obtaining it. It also examines SMEs' attitudes to raising new equity finance and their awareness and use of capital allowances and R&D tax credits. The results of these analyses are compared with the findings of the 2004 survey wherever possible.

4.1 Percentage of Businesses Seeking External Finance

We start by examining the percentage of firms seeking external finance in the last three years and look first, in Chart 4.1.1 at all SMEs and then the split by the employment and sales size bands. It shows that the proportion seeking external finance rises with firm size and has fallen from 44% to 36% between the 2004 and 2007 surveys.

For some reason it appears that the fall has been greatest in the second and fourth employment and sales size classes. For example, looking at the size bands we can see that 30% of SMEs with sales less than £50k sought external finance in both 2001-04 and 2004-07, but those in the £50k to £500k seeking finance dropped from 53% to 40% over this period. There is an increase in the proportion in the size band £500k to £1m, but a drop in the proportion seeking external finance in the largest size class.

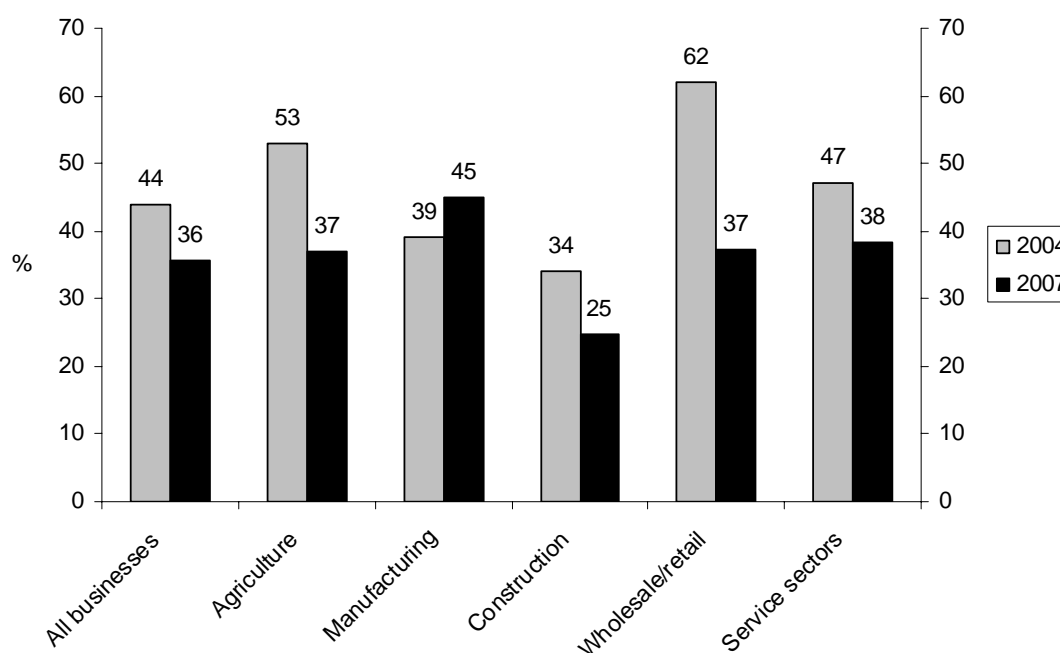
Chart 4.1.1: % of firms that sought finance in last three years by size - 2004 and 2007



Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500);
2007: n=4,256,339 (Unweighted: n=2,514)

Chart 4.1.2 looks at the picture across broad industrial sectors. Most sectors show a lower proportion of firms seeking new external finance in 2007 than in 2004. The notable exception is in Manufacturing for which the proportion has risen from 39% to 45%. The sectors with the greatest falls in the proportion seeking external finance are shown as Agriculture and Wholesale and retail distribution.

Chart 4.1.2 % of firms that sought finance in last three years by sector - 2004 and 2007

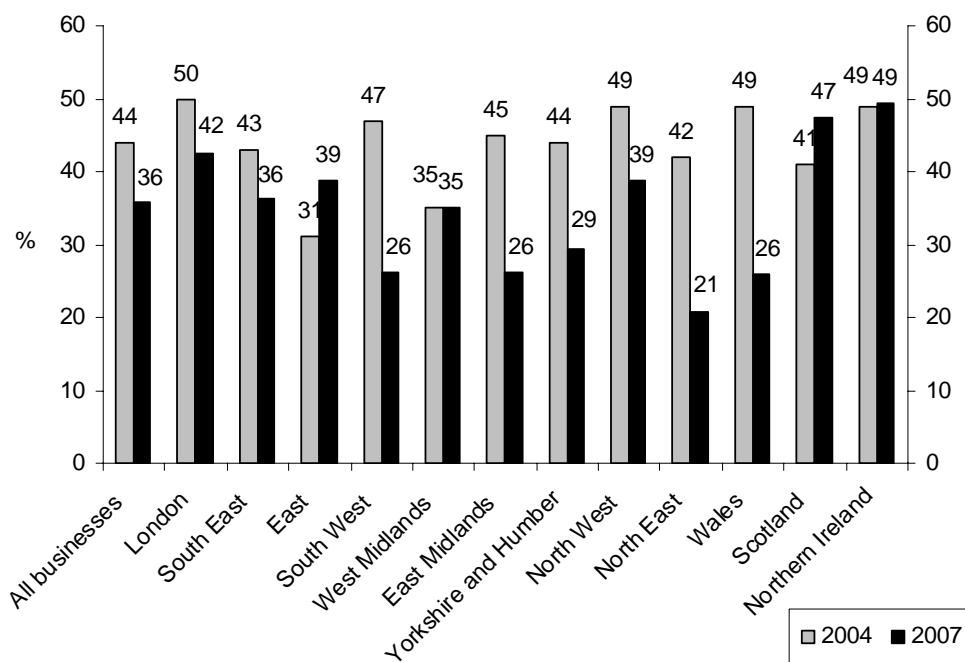


Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500);
2007: n=4,256,339 (Unweighted: n=2,514)

The regional picture is shown in Chart 4.1.3 which shows a wide variation in each year in the proportion of SMEs seeking external finance. Most regions have seen a fall in the proportion seeking new finance, but there is no change in Northern Ireland and increases in Scotland and the East of England. The greatest falls are witnessed in Wales (49% to 26%), the South West (47% to 26%), the North East (42% to 21%) and the East Midlands (45% to 26%). Section 4.6 below explores whether these regional differences are significantly different when size, sector and other business characteristics are taken into account.

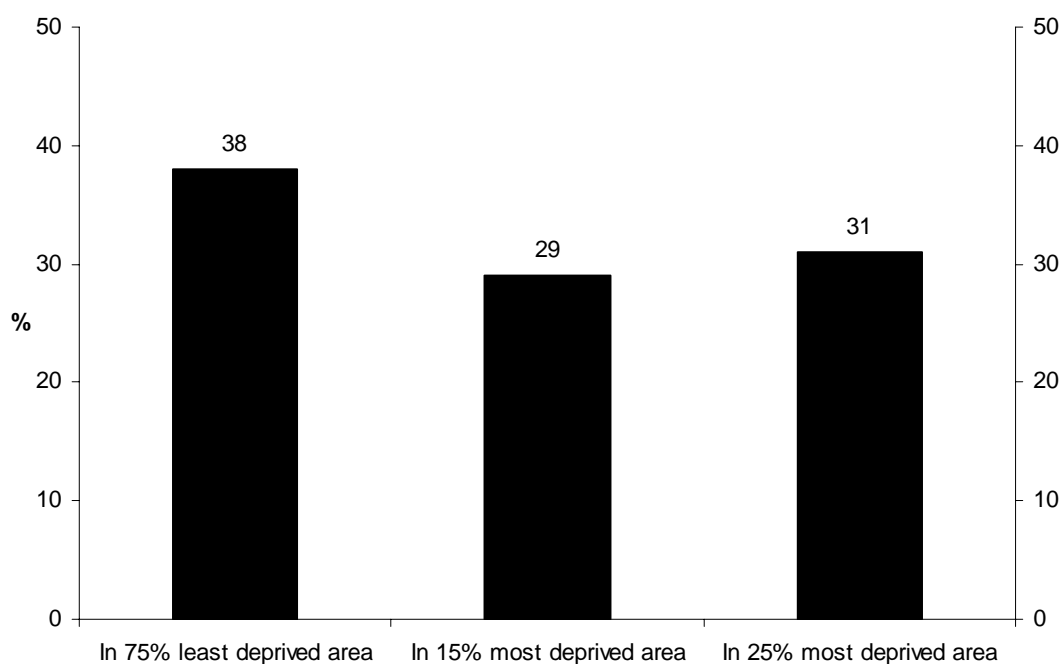
Chart 4.1.4 examines the proportion of firms seeking external finance in the deprived areas in comparison with the rest of the SME sector. We use two definitions of deprived areas, one narrow and the other a broader measure. The narrow measure shows that 29% of SMEs sought external finance in the 15% most deprived areas and 31% in the 25% most deprived areas; and this can be compared with 38% for businesses operating outside these areas.

Chart 4.1.3 % of firms that sought finance in last three years by region - 2004 and 2007



Bases: All businesses 2004: n=3,625,416 (Unweighted: n=2,500);
2007: n=4,256,339 (Unweighted: n=2,514)

Chart 4.1.4: % of businesses in deprived areas that applied for finance in last three years

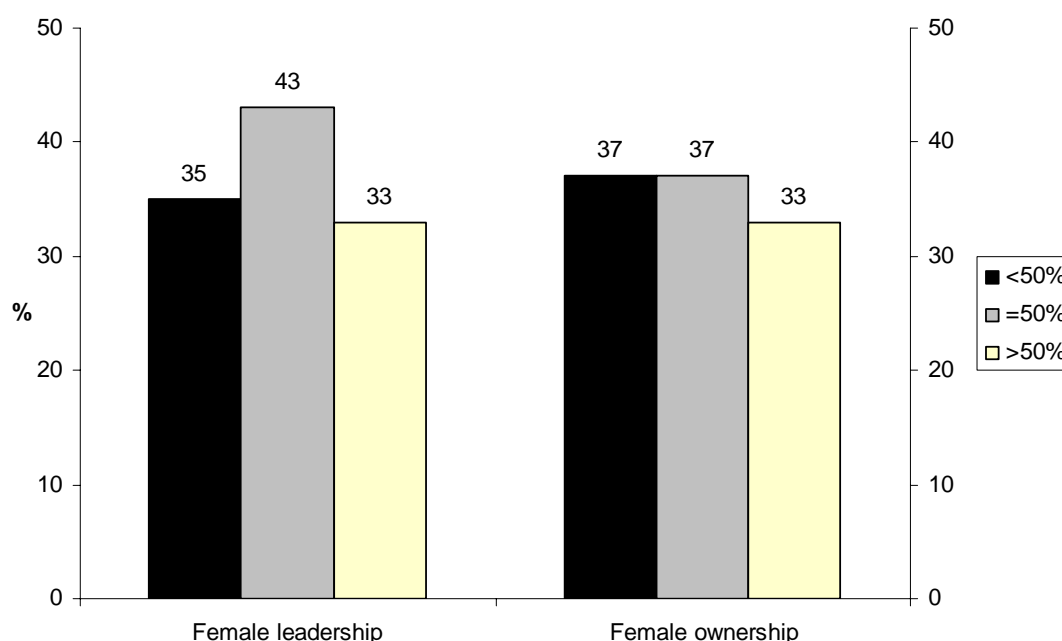


Base: All businesses 2007: n=4,256,339 (Unweighted: n=2,514)

The final examination of the proportion of businesses seeking new finance concerns female business leadership and ownership. In the 2004 survey, 48% of firms with 50% or more female owners sought finance in the previous three years compared with 43% of male-owned businesses. Chart 4.1.5 shows that in 2007 there is little discrimination in the seeking of external finance based on the gender of business leadership, or ownership. This is despite the finding that female-led businesses have higher growth ambitions, but lower past growth than their male counterparts. This question is explored further in Chapter 6.

If we examine super growth firms – those that both had fast growth in the past and continued growth ambitions – we find that 50% of them sought external finance compared with 33% for the rest.

Chart 4.1.5 A comparison of the % of female leadership and ownership businesses applying for finance in last three years



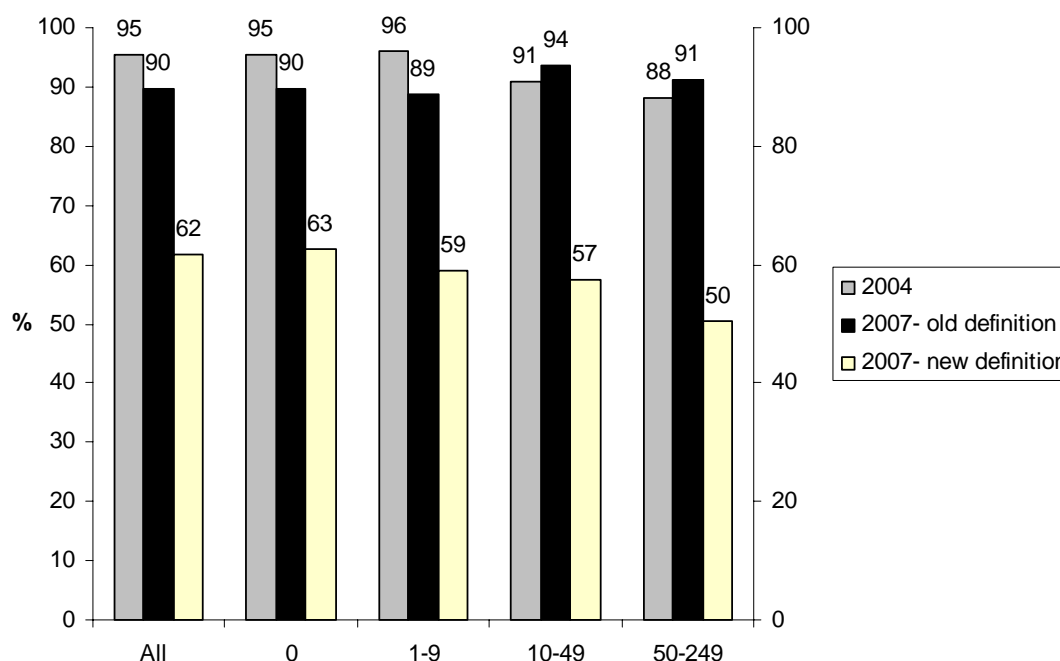
Base: All businesses 2007: n=4,256,339 (Unweighted: n=2,514)

Finally, we examine the 64% of businesses that did not seek finance. Chart 4.1.6 shows, for these businesses, the proportion of firms not seeking new external finance because they felt it was not needed. This table attempts to replicate one for the 2004 survey and is drawn from the answers to several questions. The definition used in 2004 was that the firm was not seeking finance in the past three years and had stated that this was because it did not need finance for at least one form of finance. This is replicated in the 2007 survey – ‘old definition’. We can see that this is a high proportion of firms in both surveys, but somewhat lower overall in 2007. This is due to the smaller firms; and this suggests for them a somewhat higher discouragement from applying for these firms in 2007.

The new definition used in 2007 looks at the proportion not seeking any form of finance and stating that they were content with what they have for each finance source. This shows 62% falling into this category and using this definition the proportion falls as the size of business considered increases. This suggests that

between 40% and 50% of firms did not apply for any form of finance and did not say it was because they did not need it. We may infer that these firms had other reasons for not seeking finance.

Chart 4.1.6 % of firms not seeking finance because it was not needed - 2004 and 2007



Bases: All businesses not seeking finance: 2004: n=2,030,797 (Unweighted: n=989); 2007: n=2,733,225 (Unweighted: n=1,300)

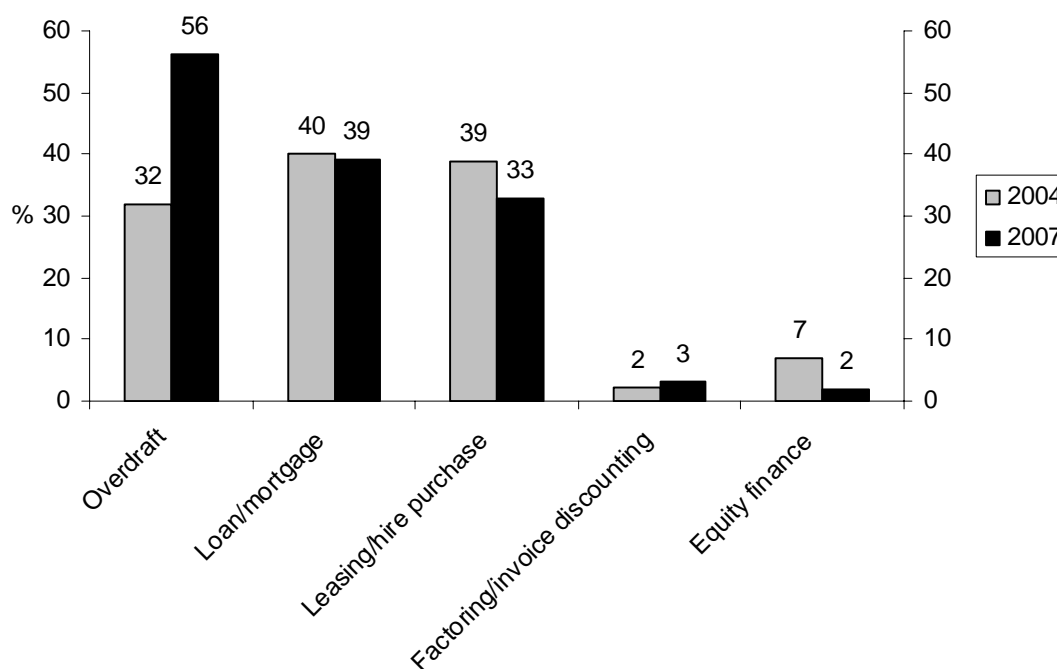
4.2 Types of External Finance Sought

In this section we look at the types of new external finance sought by the 36% of businesses that sought new finance. This question was asked only of those that had sought some form of external finance in the last three years. Firms could have applied for more than one form of external finance and so the percentages sum to greater than 100%.

Chart 4.2.1 shows the overall picture in 2007 in comparison with the findings of the 2004 survey. In the last chapter we found a decline in the use of most forms of finance and this was reinforced in the last section when we showed a lower proportion of firms seeking external finance than found in the 2004 survey. In terms of finance sought, but not necessarily obtained, the period 2004-07 has seen a shift from leasing and hire purchase finance towards overdraft finance in comparison with 2001-04.

56% of those seeking finance sought new, or extended, overdraft facilities in the last three years compared with 32% in the earlier period; whilst the proportion seeking leasing/HP has fallen from 39% to 33% and this is for a lower overall proportion seeking any finance. Term loans and mortgages have remained at about 40% of those seeking external funds.

Chart 4.2.1 Types of finance sought - 2004 and 2007



Bases: All businesses seeking finance: 2004: n=1,594,619 (Unweighted: n=1,443);
2007: n=1,523,114 (Unweighted: n=1,214)

A more detailed breakdown of the form of finance sought by SMEs seeking finance within the last three years is shown in Table 4.2.1. It is important to note the 2007 survey numbers that were seeking external finance that are shown at the top of the table. The low proportion of SMEs seeking asset-based (invoice discounting, factoring and stock finance) needs to be noted in interpreting the sub-classifications of this column. Very few sought equity finance and so it is not possible to disaggregate the figures further for this form of finance.

In terms of employment size classes, larger SMEs more commonly seek their external finance from a wider range of sources and are more likely to have sought their new finance from each type other than overdrafts. The contrast between medium-sized SMEs and zero-employee firms is greatest for leasing and hire purchase (60% compared with 24%) and asset-based finance (15% compared with 1%). The pattern is broadly similar across sales size classes. These patterns are the same as those found for the stock of financial products shown in Chapter 3.

There are differences across the sectors in terms of the sort of new finance sought except for overdrafts, which were at least part of the new finance sought for between 54% and 58% of those seeking new finance in each sector. Construction is the sector most likely to seek leasing or hire purchase finance. Firms in Wholesale and retail distribution more commonly seek new asset-based finance and credit card finance. Loans and mortgages are sought by almost half of firms seeking new finance in the Service sectors, but by only one-fifth of those in Construction and Agriculture. These sectoral differences are explored further in Section 4.6 below.

**Table 4.2.1: Types of finance sought – 2004 and 2007
(Businesses seeking finance only)**

Category	Overdraft	Loan/ mortgage	Leasing/ hire purchase	Credit cards	Factoring/ invoice discounting	Equity finance
All businesses 2004	32%	40%	39%	-	2%	7%
All businesses 2007	56%	39%	33%	36%	3%	2%
Unweighted base 2007	642	433	634	439	97	48
Number of employees						
0	56%	39%	24%	37%	1%	
1-9	56%	40%	45%	34%	6%	
10-49	51%	37%	57%	35%	9%	
50-249	50%	42%	60%	38%	15%	
Turnover						
Less than £50,000	52%	21%	24%	46%	0%	
£50,000-£499,999	57%	52%	36%	29%	4%	
£500,000-£999,999	54%	26%	46%	27%	2%	
£1,000,000+	55%	44%	52%	38%	11%	
Industry						
Agriculture	55%	22%	35%	29%	1%	
Manufacturing	57%	35%	35%	38%	4%	
Construction	54%	19%	46%	37%	2%	
Wholesale/retail	58%	31%	36%	41%	10%	
Service sectors	56%	48%	28%	35%	2%	
Deprivation (15%)						
Deprived area	56%	51%	29%	34%	5%	
Other	56%	37%	33%	36%	3%	
Female leadership						
<50%	54%	40%	34%	35%	3%	
=50%	65%	38%	38%	36%	6%	
>50%	58%	33%	23%	42%	2%	
Female ownership						
<50%	54%	42%	34%	36%	3%	
=50%	60%	40%	37%	33%	8%	
>50%	59%	26%	22%	43%	1%	
Growth firm						
Super growth	70%	38%	34%	42%	6%	
Other	54%	42%	39%	30%	4%	

Bases: All businesses seeking finance: 2004: n=1,594,619 (Unweighted: n=1,443); 2007: n=1,523,114 (Unweighted: n=1,214)

Female run and owned SMEs are more likely in seeking new finance to use credit card finance and overdrafts and less likely to use any of the other forms. Firms in deprived areas do not appear to seek different types of finance than those in other areas with the exception of a higher use of term loans or mortgages. It will be recalled that a higher proportion of super growers sought new external finance and these firms do so in higher proportions only for overdrafts and credit cards.

4.3 Success in Raising External Finance

Our next analysis is of the success in obtaining the finance that was sought. This question was not asked in this form in 2004 and so it is not possible to provide a comparison with the previous survey.

In Table 4.3.1 we have categorised firms that sought finance into three columns – those that obtained everything they sought, those that received some, but not all, of the amount they sought and those that received nothing. The first row reveals that 71% of all firms seeking new finance in the previous three years received all that they sought from one source, or another. On the other hand 15% of SMEs received none of the new finance they sought.

The picture for size is much as we would expect, with the proportion with no success falling (from 18% to 2%) and the proportion with 100% success rising (from 70% to 79%) with firm size, at least when the size classes are measured by employment. The picture by sales bands is not capable of such a simple summary.

Agriculture appears to be an all-or-nothing sector, with the second largest outright rejection and complete success rates. The Service sectors had the lowest outright rejection proportion (13%). In the period 2004-07 the Construction sector had the highest proportion (79%) with 100% success in raising what they sought; and this may be of some concern given the currently troubled state of that sector.

Businesses with female business leaders and owners appear to exhibit both greater outright success and greater complete failure in raising new finance. The latter result is surprising since female-led businesses are found in higher numbers in the Service sectors which exhibited the lowest failure to obtain any funding.

Businesses in deprived areas appear to be both less likely to be turned down completely, but also less likely to receive all that they sought. Only 9% of businesses in deprived areas that sought funds were turned down completely, but then a lower proportion of businesses in these areas were seeking finance.

The super growth firms also are less likely to obtain all of the new external finance they sought; 64% compared with 74% for other finances seekers. It might be thought that this may be partly due to their higher demands, but this is found not to be the case (see Table 4.3.5 below).

**Table 4.3.1: Outcome of finance application
(Businesses seeking finance only)**

Category	Obtained 100%	Obtained <100%	Obtained nothing
All businesses	71%	13%	15%
Number of employees			
0	70%	11%	18%
1-9	72%	17%	11%
10-49	75%	18%	7%
50-249	79%	19%	2%
Turnover(a)			
Less than £50,000	76%	6%	18%
£50,000-£499,999	68%	22%	10%
£500,000-£999,999	63%	10%	27%
£1,000,000+	79%	17%	4%
Industry			
Agriculture	76%	5%	19%
Manufacturing	65%	18%	17%
Construction	79%	5%	16%
Wholesale/retail	68%	10%	22%
Service sectors	71%	17%	13%
Deprivation (15%)			
Deprived area	67%	24%	9%
Other	72%	12%	16%
Female leadership			
<50%	70%	15%	15%
=50%	78%	9%	12%
>50%	75%	8%	18%
Female ownership			
<50%	70%	15%	14%
=50%	83%	9%	8%
>50%	73%	7%	20%
Growth firm(b)			
Super growth	64%	24%	11%
Other	74%	14%	13%

Base: All businesses seeking finance reporting proportion obtained: n=1,381,513 (Unweighted: n=1,096)

(a) Base: All businesses seeking finance reporting turnover and % obtained: n=1,227,265 (Unweighted: n=959)

(b) Base: All businesses seeking finance reporting growth status and % obtained: n=1,052,093 (Unweighted: n=913)

Which finance sources were approached and what success was had with each is shown in Table 4.3.2, split by employment size class. For each size group, the first column shows, for those businesses that applied for any form of finance, the proportion that applied for each particular source. The other columns show, for those

that did approach that particular source, the proportions granted all that they sought, partial success and complete failure. The final column shows the number of survey respondents approaching each source; and this can be very low when we split the sample into size classes.

The analysis is drawn from the answers to three questions about whether firms approached a particular source of finance, whether they had partial success and whether they had no success. The percentage of finance applicants with complete success are calculated as those that answered yes to the first question and no to the second and third questions. Since firms can apply more than once, they could answer yes to both the second and third questions. To tackle this, we accord partial success/rejection to those that answered yes to the second question and discount them from the outright rejection column.

The top part of the table considers the findings for all SMEs and the first column repeats the information that was shown in Table 4.2.1 for convenience. For all businesses the highest complete success rates (93%) are found in the two least used sources of new finance – asset-based finance (factoring etc.) and equity. The highest rejection rates are found for overdrafts (75% complete success and 10% outright rejection) and credit cards (70% complete success and 16% outright rejection). Leasing and hire purchase are quite common sources of new finance, used by about one-third of the 36% of businesses that sought finance; and they are generally successful (88% complete success, but 10% outright rejection). Finally, loans and mortgages exhibit a low outright rejection rate (4%) and a high probability of complete success (85%).

The other four sections of the table break these down into our four size categories for those types of finance with sufficient observations. The success rate with overdrafts is materially higher for the larger two size groups but these firms, with ten or more employees, are less likely to have sought new overdrafts. There is little change in the use of, and success rate with, loans and mortgages across the size groups. On the other hand, both the use of, and success in obtaining, leasing/HP rise with firm size. There is little relationship between the use of credit cards and firm size, but the success of obtaining credit card finance is markedly lower for the zero-employee businesses.

The businesses that were turned down for all the finance they sought were asked whether they were referred, by the refusing institution, to other possible sources of finance. They were also asked whether they had subsequently found the funding they needed. These are reported in Table 4.3.3 that shows 11% of SMEs were referred to other potential funding sources. It also shows that this proportion is much higher the larger the business. About 29% of businesses said that they always received the funding they needed from another source and a further 18% sometimes found the finance. This leaves over half of the 15% of firms that were initially rejected in full never finding success with alternative sources. This too is highly size dependent.

For those firms that did find alternative funding, Table 4.3.4 shows what was the alternative provider of those funds. The most common alternative provider was a different bank (45%), but family and friends also represent a significant proportion (30%). The same bank provided funding though an alternative product in 9% of the cases.

**Table 4.3.2: Outcome of finance application by source of finance
(Businesses seeking finance only)**

Category	Approached a particular source	Granted everything (a)	Partial rejection (a)	Outright rejection (a)	Unweighted base (approaching the source)
All businesses					
Overdraft	56%	75%	15%	10%	642
Commercial loan or mortgage	39%	85%	11%	4%	433
Leasing or hire purchase	33%	88%	2%	10%	634
Factoring/invoice discounting	3%	93%	7%	0%	97
Credit cards	36%	70%	14%	16%	439
Equity finance or shares	2%	93%	1%	6%	48
Number of employees: 0					
Overdraft	56%	74%	16%	10%	96
Commercial loan or mortgage	39%	84%	12%	4%	56
Leasing or hire purchase	24%	85%	2%	13%	42
Credit cards	37%	62%	18%	20%	67
Number of employees: 1-9					
Overdraft	56%	75%	15%	10%	191
Commercial loan or mortgage	40%	87%	11%	2%	124
Leasing or hire purchase	45%	90%	2%	8%	156
Credit cards	34%	85%	5%	10%	117
Number of employees: 10-49					
Overdraft	51%	83%	11%	6%	230
Commercial loan or mortgage	37%	84%	7%	9%	158
Leasing or hire purchase	57%	94%	2%	4%	261
Credit cards	35%	84%	11%	5%	152
Number of employees: 50-249					
Overdraft	50%	86%	8%	6%	125
Commercial loan or mortgage	42%	86%	3%	11%	95
Leasing or hire purchase	60%	97%	0%	3%	175
Credit cards	38%	85%	12%	3%	103

(a) Businesses that approached the source

Base: All businesses that sought finance: n=1,523,114 (Unweighted: n=1,214)

Table 4.3.5 presents both the average total amount of new finance sought by businesses that sought new funds over the past three years and the average success in obtaining finance, this time measured by the mean percentage obtained.

The mean amount sought was £470,000 compared with £82,000 in the 2004 survey, but there are some large observations since the median is £45,000 for the 2007 survey. The table shows that these amounts are dependent on firm size as one would expect. It also shows that the difference in mean compared with the 2004 survey appears to be the average amounts sought by those firms with fewer than fifty employees.

**Table 4.3.3: Referrals and % of firms subsequently receiving finance
(Businesses that were turned down or offered less than amount sought)**

Category	Referred (a)	Received the funding from other source(a)		Unweighted base (rejected)
		Always	Sometimes	
All businesses	11%	29%	18%	174
Number of employees				
0	9%	27%	17%	39
1-9	15%	32%	19%	57
10-49	20%	36%	21%	57
50-249	30%	33%	46%	21
Turnover				
Less than £50,000	5%	33%	20%	32
£50,000-£499,999	2%	17%	23%	48
£500,000-£999,999	44%	28%	1%	19
£1,000,000+	61%	72%	8%	44

(a) Base: Businesses that were turned down or offered less than sought: n=301,350 (Unweighted: n=174)

**Table 4.3.4: Type of institution that provided the funding
(Businesses that were referred and subsequently received the funding they needed)**

Category	Same bank via different product	A different bank	Friends or family	Other	Don't know
All businesses	9%	45%	30%	10%	6%

Base: All referred businesses that subsequently received the funding: n=141,287 (Unweighted: n=99)

The sectors exhibit a different picture in 2007 compared with that found in 2004. Manufacturing no longer is the largest fundraiser on average – this position now belongs to the Service sectors in terms of both the mean and the median. The increases in average funds sought in Services, and in Agriculture, are in stark contrast to the decline since the 2004 survey in finance sought by Manufacturing. The picture across the regions is varied and will be examined in the multivariate analysis in Section 4.6 at the end of this chapter.

The amount of external funding sought by female-led and female-owned businesses is shown to be materially less than that sought by their male counterparts whether measured by the mean, or the median. Firms in deprived areas seek lower sums on average than SMEs in other areas. Perhaps the most surprising result here is that the super growth firms, a category that experienced higher rejection rates, were actually seeking a similar level of external finance to that of other firms.

The mean percentage of funds sought that were obtained is shown in the third column and for all firms was 81%. It ranges from just under 80% for zero employee businesses to over 90% for the largest SME group. This success rate was lowest in Wholesale and retail distribution (74%) and in Manufacturing (75%) and highest for Construction (83%) and the Service sectors (83%). Across the regions it ranged from 74% in Wales to 88% in Yorkshire and the Humber, but we require multivariate analysis to determine whether this is resulting from size and sector differences.

There is no difference in the percentage obtained between female-led and male-led businesses, but female-owned businesses appear to be slightly less successful in the percentage of finance they obtain.

Firms in deprived areas were found to be less likely to be turned down completely, but also less likely to obtain all they sought. The mean percentage obtained supports this description since, at 81%, it is the same for deprived and other areas. We also noted earlier that the super growth firms were less likely to obtain all the finance they sought. Despite this, we find their average success rate is higher than other firms.

**Table 4.3.5: Amount of finance sought and % obtained
(Businesses seeking finance only)**

Category	2007			2004
	Winsorised mean amount sought (£)	Median amount sought (£)	Obtained	Weighted mean amount sought (£)
All businesses	470,340	45,000	81%	81,826
Number of employees				
0	141,666	7,500	79%	29,233
1-9	217,033	20,000	84%	77,833
10-49	439,901	50,000	85%	291,905
50-249	1,007,076	300,000	92%	1,019,641
Turnover(a)				
Less than £50,000	28,228	5,000	82%	27,058
£50,000-£499,999	137,621	20,000	83%	48,116
£500,000-£999,999	161,831	30,000	69%	90,816
£1,000,000+	849,347	200,000	92%	430,567
Industry				
Agriculture	345,398	65,000	78%	37,557
Manufacturing	238,881	40,000	75%	269,808
Construction	363,947	30,000	83%	66,314
Wholesale/retail	336,488	40,000	74%	73,853
Service sectors	609,750	70,000	83%	81,967
Deprivation (15%)				
Deprived area	533,690	74,000	81%	
Other	454,456	40,000	81%	
Female leadership				
<50%	526,056	50,000	81%	
=50%	392,983	40,000	84%	
>50%	218,204	30,000	80%	
Female ownership				
<50%	518,378	50,000	81%	
=50%	357,584	50,000	89%	
>50%	243,929	30,000	78%	
Growth firm(b)				
Super growth	574,235	50,000	85%	
Other	497,986	50,000	82%	

Base: All businesses that sought finance: 2004: n=1,594,619 (Unweighted: n=1,443); 2007: n=1,523,114 (Unweighted: n=1,214)

4.4 Equity Finance Awareness

Very few firms gave equity as a source of finance and so there are too few answers to permit robust analysis of the results of firms that did raise new equity finance. However, very many more firms answered questions on their awareness of sources of equity and on support schemes to help them to find and secure investors. All incorporated businesses (i.e. excluding sole proprietorships and partnerships) were asked whether they would consider raising finance by issuing new equity; and the answers are shown in Table 4.4.1 below.

One fifth of corporate SMEs would consider raising equity and this rises with the size of the firm as measured by sales; but employment size shows no particular pattern. The sectoral results are also interesting since the sector that did apply the most for equity finance, Agriculture, also shows the lowest inclination to do so.

Female led and owned companies show a much lower inclination to consider raising new equity. On the other hand, companies in deprived areas and the super growth firms are more willing to consider it.

The firms were asked about their awareness of named public sector venture capital funds that operated in their region. They were also asked about their awareness of the availability of any local schemes (public or private sector) that can help a business to prepare a pitch to an external investor. The findings, for companies only, are shown in Table 4.4.2.

For all companies, 20% were aware of local venture funds and 13% of support for preparing a pitch to investors, but 77% of incorporated SMEs are not aware of either. Surprisingly, there is little difference in awareness levels across company size.

SMEs in Manufacturing exhibit the highest awareness levels and Construction has the lowest awareness level. The regional pattern is also quite marked. In terms of awareness of their regional venture capital funds Yorkshire and Humber (41%) and Wales (36%) have much higher levels than found in London (13%), Scotland (12%), the East (11%) and the North East (11%). The awareness of pitch preparation support varied from 6% in the East Midlands and 7% in London and in the East to 30% in Scotland and in Yorkshire and Humber.

Female owned businesses have higher awareness levels on average, but there is little difference in the level for female led businesses, or companies in deprived areas. There is a marked difference in the higher level of awareness of both of these in super growth companies compared with other incorporated SMEs, but the overall levels of awareness amongst super growth firms is still low.

These awareness levels are subjected to multivariate analysis in Section 4.6 later in this chapter.

**Table 4.4.1: Whether would consider raising equity
(Companies only)**

Category	Unweighted base	Would consider
All businesses	1,412	20%
Number of employees		
0	99	17%
1-9	353	23%
10-49	554	20%
50-249	406	19%
Turnover(a)		
Less than £50,000	68	8%
£50,000-£499,999	288	23%
£500,000-£999,999	154	28%
£1,000,000+	670	27%
Industry		
Agriculture	60	11%
Manufacturing	158	28%
Construction	303	23%
Wholesale/retail	179	15%
Service sectors	712	19%
Deprivation (15%)		
Deprived area	332	27%
Other	1,080	18%
Female leadership		
<50%	977	22%
=50%	281	20%
>50%	132	9%
Female ownership		
<50%	933	25%
=50%	244	19%
>50%	129	5%
Growth firm(b)		
Super growth	239	25%
Other	974	20%

Base: All companies: n=1,430,782 (Unweighted: n=1,412)
(a) Base: All companies reporting turnover: n=1,180,777 (Unweighted: n=1,180)
(b) Base: All companies reporting growth status: n=1,161,072 (Unweighted: n=1,213)

**Table 4.4.2: Awareness of local equity sources
(Companies only)**

Category	A local venture capital fund	Any local support programmes that can help prepare a pitch to an external investor	Neither of these
All companies	20%	13%	77%
Number of employees			
0	20%	13%	77%
1-9	20%	13%	76%
10-49	20%	15%	75%
50-249	22%	10%	75%
Turnover(a)			
Less than £50,000	24%	15%	75%
£50,000-£499,999	18%	10%	79%
£500,000-£999,999	27%	16%	67%
£1,000,000+	19%	10%	78%
Industry			
Agriculture	18%	17%	82%
Manufacturing	20%	22%	69%
Construction	14%	8%	84%
Wholesale/retail	19%	11%	79%
Service sectors	22%	14%	75%
Deprivation (15%)			
Deprived area	18%	13%	79%
Other	20%	13%	76%
Female leadership			
<50%	18%	13%	78%
=50%	24%	15%	73%
>50%	20%	15%	77%
Female ownership			
<50%	18%	13%	78%
=50%	19%	13%	79%
>50%	26%	21%	70%
Growth firm(b)			
Super growth	30%	17%	65%
Other	16%	11%	81%

Base: All companies: n=1,430,782 (Unweighted: n=1,412)

(a) Base: All companies reporting turnover: n=1,180,777 (Unweighted: n=1,180)

(b) Base: All companies reporting growth status: n=1,161,072 (Unweighted: n=1,213)

4.5 Capital Allowances and Tax Credits

Finally in this chapter we examine firms' awareness and use of capital allowances and tax credits. Although Table 4.5.1 presents the analysis for all SMEs, the first row presents the results for just companies.

Awareness levels are higher for incorporated SMEs than other legal forms: 42% of them are aware of capital allowances for SMEs compared with 33% for all SMEs; 33% of them are aware of R&D tax credits compared with 25% for SMEs overall; and 36% of incorporated SMEs are aware of the more specialised capital allowances for energy saving technologies compared with 28% for all SMEs.

The differences in use of these are not as great. Incorporated SMEs make more use of capital allowances, 9% of them compared with 5% of all SMEs; but the other two are claimed by the same proportion of incorporated and non-incorporated SMEs, 2% of them for energy capital allowances and 1% for R&D tax credits.

The proportion making use of these allowances is still low even if we include only businesses carrying out capital expenditure. This is surprising and may possibly reflect either a lack of knowledge about these allowances, or about what allowances have been claimed by their accountants in drawing up the tax return.

The awareness of each measure increases sharply with firm size, more than doubling in each case, and this suggests that the differences between companies and other legal forms is largely driven by their average size difference. The uptake of SME capital allowances also increases sharply with firm size from 4% for zero employee businesses to 23% for the largest SMEs. The uptake of the other two tax breaks also increases with firm size. The uptake of R&D tax credits goes from 0% for the smallest businesses to 9% for the largest SMEs when we consider employment size classes.

Construction is a low user of each of the measures and has the lower awareness of each measure compared with the other sectors. Apart from Construction firms, broadly similar proportions of firms are aware of the capital allowances, but the uptake is far higher in Manufacturing. It is interesting to note that the sector with the highest proportion taking up R&D credits is the Manufacturing sector, but that Wholesale and retail distribution have a higher proportion aware of them.

There are not large differences in awareness, or uptake, amongst female led and female owned SMEs. Furthermore, we do not find consistent differences between firms in deprived areas and super growth firms compared with others in terms of their awareness, or use, of these tax-based incentives.

Table 4.5.1: Awareness and use of capital allowances and tax relief

Category	Capital allowances for SMEs		Capital allowances for energy saving technologies		R&D tax credits	
	Awareness	Claimed	Awareness	Claimed	Awareness	Claimed
All companies	42%	9%	36%	3%	33%	2%
All businesses	33%	5%	28%	2%	25%	1%
Number of employees						
0	30%	4%	25%	1%	24%	0%
1-9	38%	7%	32%	2%	27%	1%
10-49	47%	12%	43%	4%	35%	6%
50-249	64%	23%	60%	11%	53%	9%
Turnover(a)						
Less than £50,000	27%	5%	17%	0%	17%	0%
£50,000-£499,999	37%	5%	37%	3%	31%	0%
£500,000-£999,999	40%	2%	35%	2%	32%	4%
£1,000,000+	52%	12%	49%	7%	47%	3%
Industry						
Agriculture	33%	5%	30%	2%	23%	0%
Manufacturing	34%	11%	28%	6%	28%	4%
Construction	26%	1%	25%	2%	23%	0%
Wholesale/retail	33%	5%	31%	2%	31%	2%
Service sectors	35%	6%	28%	1%	25%	0%
Deprivation (15%)						
Deprived area	30%	5%	30%	3%	23%	1%
Other	33%	5%	27%	1%	26%	1%
Female leadership						
<50%	33%	5%	28%	2%	26%	1%
=50%	39%	6%	34%	3%	31%	1%
>50%	29%	5%	23%	1%	21%	1%
Female ownership						
<50%	33%	5%	28%	2%	25%	1%
=50%	36%	6%	36%	2%	33%	0%
>50%	31%	6%	25%	1%	23%	1%
Growth firm(b)						
Super growth	32%	5%	26%	2%	31%	1%
Other	35%	6%	30%	2%	27%	1%

Base: All businesses: n=4,256,339 (Unweighted: n=2,514)

(a) Base: All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026)

(b) Base: All businesses reporting growth status: n=3,169,095 (Unweighted: n=2,059)

4.6 Multivariate Analysis

In this section we pull together the key findings of the chapter and examine them in a multivariate context. In this way we can introduce further firm level characteristics and explore the joint effect of our explanatory variables. In particular, we can assess whether regional differences can be explained by the size and sector distribution differences between regions.

In the first two columns of Table 4.6.1 we examine the determinants of whether a firm sought finance within the last three years. The first column includes the variables we used in Chapter 3 and the second column adds the current profit margin as a further explanatory variable. All firms founded within the last two years were excluded from this analysis and the associated NEW dummy variable is dropped as a consequence.

In section 4.1 above we showed that the proportion of firms seeking finance rose across the size classes. This is confirmed by the results in Table 4.6.1 which show a significant increase in the proportion in going from zero employee businesses (the comparison group) to micro firms, and a further increase to the largest two size categories.

We also found that Manufacturing was the only sector to have increased the proportion of firms seeking finance since 2004 and it exhibited the largest proportion of finance seekers in 2007. Since Manufacturing is the comparison sector in the multivariate analysis, it is not surprising to find all the other sectors with negative coefficients. Other services and Construction have a significantly lower proportion seeking finance.

Although there were marked differences across the regions in terms of the proportion seeking finance, the multivariate analysis shows that none of these is significantly different when other factors are taken into account. Similarly, the lower proportion of firms seeking finance in deprived areas is accounted for by the other variables rather than being in a deprived area itself.

The multivariate analysis confirms our earlier findings that super growth firms are more likely to be seeking finance and that there are no significant gender differences in finance seeking. Turning to the other firm variables we find that business improvers are more likely to be seeking finance and that those seeking finance are likely to be using advice from others (e.g. bank manager, rather than accountant) and somewhat more likely to have a financially qualified finance manager.

The addition of the profit margin as an explanatory variable changes very little in these findings – apart from the weakly negative coefficient for Agriculture and the weakly positive one for London. The profit margin itself shows a significant negative relationship and this shows that more profitable companies are less likely to need to seek external funds. This is in line with the pecking order hypothesis.

The third and fourth columns of Table 4.6.1 have complete success as the dependent variable in the probit regression – those SMEs that obtained everything they sought in terms of new finance are given a score of unity and other firms that sought finance but were not completely successful are given the score of zero. Earlier in this chapter we found that success rose with firm size class, but in the multivariate analysis whilst the coefficients on size are all positive, they are not generally statistically significant.

Table 4.6.1 Whether sought finance, success and amount sought in the last 3 years

Probit/OLS regression analysis	Finance seeker		Complete success		Amount sought	
Number of employees(a)						
1-9	0.37***	0.44***	0.26	0.25	0.23	0.07
10-49	0.63***	0.61***	0.25	0.17	1.12***	1.12***
50-249	0.63***	0.63***	0.43**	0.22	2.29***	2.16***
Industry(a)						
Construction	-0.22*	-0.24*	0.30	0.46	0.17	0.27
Distribution	-0.23	-0.24	0.00	0.16	0.06	0.18
Business services	-0.20	-0.16	0.03	0.20	1.04***	1.12***
Other services	-0.23**	-0.26*	0.07	0.19	0.25	0.15
Agriculture	-0.14	-0.30*	0.52**	0.70**	0.60*	0.60
Region(a)						
London	0.22	0.32*	-0.06	-0.24	0.13	-0.11
South East	0.12	0.12	-0.07	-0.24	0.60*	0.42
East	0.23	0.17	-0.19	-0.35	0.03	-0.21
South West	0.12	0.03	0.16	0.17	0.42	0.29
East Midlands	-0.04	-0.06	0.26	0.30	0.51	0.28
Yorkshire and Humber	0.09	0.23	-0.06	-0.22	0.23	0.04
North West	-0.03	-0.04	0.20	-0.05	0.45	0.73*
North East	-0.15	-0.12	-0.26	-0.43	0.39	0.30
Wales	0.02	0.16	0.16	0.04	-0.20	-0.50
Scotland	0.17	0.07	-0.18	-0.35	0.36	0.25
N Ireland	0.12	0.07	0.02	-0.28	0.43	0.64
Deprived area	-0.08	-0.05	0.04	0.07	0.20	0.06
Business factors						
Profit margin		-0.00**		0.00		-0.00**
Super grower	0.19**	0.35***	-0.02	-0.03	0.03	0.18
Female led	-0.04	-0.07	-0.12	-0.16	-0.39	-0.78***
Old firm	-0.08	-0.12	0.20*	0.28**	0.09	0.12
No A' level	-0.03	-0.01	-0.40**	-0.40***	0.37*	0.44**
Owner has degree	0.01	-0.03	-0.06	-0.05	0.27	0.28
Finance qualified	0.12*	0.03	0.17	0.17	0.83***	0.62***
Business improver	0.33***	0.35***	0.04	-0.02	-0.07	-0.10
Exporter	-0.09	-0.15	-0.04	0.14	0.17	0.32
Web for trading advice	0.12*	0.11	0.19	0.27**	0.04	0.05
Accountant advice	0.03	-0.02	-0.20	-0.20	-0.14	-0.05
Other advice	0.27***	0.26***	-0.25*	-0.23	-0.11	0.04
Observations	1,685	1,165	740	577	591	479
Chi ²	174.5	138.2	51.2	46.9	R ²	R ²
Pseudo R ²	0.08	0.09	0.06	0.07	0.29	0.31

***, **, * indicate significance at the 1%, 5%, 10% levels. . (a) Comparison groups are zero employees, Manufacturing & West Midlands

The results suggest that Manufacturing had a worse success rate than the other sectors when other factors are taken into account since all the sector coefficients are positive. Agriculture had a significantly higher success rate. The multivariate findings show no statistically significant differences in success rates across the regions despite the wide variations found earlier.

Firms with longer track records (i.e. that have been in existence for ten years, or more) have greater success, whilst those with business leaders with lower educational qualifications have significantly less success.

The final two columns of Table 4.6.1 report on OLS regressions with the logarithm of the amount sought as the dependent variable. It first shows that the amounts sought by micro firms do not differ significantly from that sought by zero employee firms. On the other hand, the amount sought rises significantly with firm size beyond ten employees.

The sector for comparison is Manufacturing and each of the other sectors has a positive coefficient suggesting that firms in those sectors sought more finance than Manufacturing SMEs after taking other factors into account. This may be partly due to using the number of employees rather than sales as the size measure. The difference is large and highly significant for Business services, and marginally significant for Agriculture.

The regional differences are only rarely significant with only the South East and the North West showing significantly higher amount sought than the West Midlands. We also find that the amount sought is negatively correlated with the profit margin and with female led businesses. This suggests that even after taking account of business size, sector, profit margin and age, the female led business will seek lower amounts than their male counterparts (but with no greater success).

Two other factors are significantly associated with the amount sought. Firms with financially qualified managers are more likely to seek more, but then so are SMEs with business leaders with lower educational qualifications. This latter finding may explain why they were shown to be less successful in their applications for funding.

Table 4.6.2 reports on the factors influencing the likelihood of SMEs seeking four different types of finance. This is examined for all firms that sought any sort of finance, provided that they were at least two years old at the time of the survey. The likelihood of a firm seeking each type of finance increases with firm size, confirming our earlier results.

Manufacturing SMEs were more likely to be raising finance and this is shown by the generally negative, but statistically insignificant, coefficients for the other sectors in Table 4.6.2. The marked exception to this is the significantly greater use of new loans and mortgages by the Business services firms.

The regional effects are generally insignificant when factors such as firm size, age and sector are taken into account, but this is not always the case. The comparison region chosen is the West Midlands and so it is significant differences from this region that are being examined. With this in mind we find that in the case of new overdrafts the North East and the North West SMEs were significantly less likely to have sought this type of finance. On the other hand, London and Yorkshire and Humber are more likely to have used credit card finance, after other factors have been taken into account.

Table 4.6.2 Sought new finance in last three years from

Probit regression analysis	Overdraft	Loans & mortgages	Leasing and HP	Credit cards
Number of employees(a)				
1-9	0.35***	0.21	0.44***	0.20
10-49	0.33**	0.33**	0.81***	0.36**
50-249	0.36**	0.42**	0.74***	0.46***
Industry(a)				
Construction	-0.11	-0.16	0.12	-0.08
Distribution	-0.12	-0.20	-0.08	-0.13
Business services	-0.23	0.36**	0.04	-0.04
Other services	-0.24	-0.23	-0.01	-0.22
Agriculture	-0.20	-0.03	0.18	-0.21
Region(a)				
London	0.04	0.06	-0.23	0.41*
South East	-0.25	-0.02	-0.01	0.12
East	0.16	0.13	-0.27	0.06
South West	-0.06	0.00	0.01	0.00
East Midlands	-0.31	0.03	-0.11	0.10
Yorkshire and Humber	0.01	-0.07	-0.07	0.48**
North West	-0.34*	0.32	-0.13	-0.08
North East	-0.64***	-0.25	-0.36	-0.14
Wales	-0.01	0.03	0.02	0.31
Scotland	0.06	0.12	-0.17	0.17
N Ireland	-0.25	-0.04	0.11	0.15
Deprived area	0.05	0.03	-0.02	-0.01
Business factors				
Profit margin	-0.00***	-0.00	-0.00***	-0.00*
Super grower	0.20*	0.14	0.03	0.40***
Female led	-0.05	0.19	0.01	0.16
Old firm	-0.17*	-0.23**	0.04	-0.18*
No A level	-0.02	-0.01	-0.07	-0.16
Owner has degree	0.11	0.01	-0.29***	-0.09
Finance qualified	-0.03	0.12	0.11	0.03
Business improver	0.27***	0.44***	0.41***	0.22**
Exporter	-0.15	-0.06	-0.09	-0.12
Web for trading	0.07	-0.08	0.26***	0.16
Accountant advice	0.06	-0.04	-0.04	-0.19
Other advice	0.26**	0.21**	0.02	0.05
Observations	1,165	1,165	1,165	1,165
Chi ²	90.8	99.1	135.9	85.4
Pseudo R ²	0.35	0.21	0.44	0.20

***, **, * indicate significance at the 1%, 5%, 10% levels. . (a) Comparison groups are zero employees, Manufacturing & West Midlands

The profit margin has a negative and generally significant effect on the likelihood of seeking new finance from these sources. Super growth firms are more likely to be seeking funds, but this is significant only for overdrafts and credit card finance. Old firms are less likely to be seeking finance, but business improvers are significantly more likely to be seeking funds from each of these sources. Advice from an adviser other than the accountant is significantly associated with seeking finance from overdrafts and loans and mortgages, probably due to the role that a bank manager plays in this type of fund-raising.

Leasing and hire purchase finance shows some unique results in that seeking this form of finance is significantly and positively associated with the firm having a website for trading, but significantly negatively related to the business leader having a degree. We leave others to puzzle over this latter finding!

The final multivariate analysis shown in Table 4.6.3 examines the businesses' awareness of local venture capital support and support programmes for the preparation of business pitches. In each case the findings are shown for all firms and separately for companies.

In terms of size and sector we find that the size of a business is not associated with awareness of these schemes and only Construction businesses are significantly different from firms in other sectors in showing a substantially lower awareness.

Having lower educational qualifications is negatively, and having a financially qualified manager is positively, associated with awareness levels. Being a business improver, exporting, having a website for trading and taking an accountant's advice are generally positive influences on awareness of these schemes, though not always significantly.

There are important differences across the regions for both schemes. When the question about venture capital was asked, the business was asked about whether they were aware of the local venture capital fund; and its regional name was given by the questioner. Whether we consider all firms (column 1), or just companies (column 2), we find significantly different awareness levels across the regions. Here the comparison is made with the West Midlands and the number of negative coefficients amongst the other regions suggests that awareness is relatively high in the West Midlands. The North East, North West, London, South East, Scotland and the South West all have significantly lower awareness levels of their local venture capital scheme amongst their businesses (significant only for companies for Scotland and the South West). Only Wales shows a significantly higher awareness of their local venture capital fund than the West Midlands.

The picture is similar for awareness of support for business pitch preparation, with Wales the only region with a significantly higher awareness than West Midlands. The East Midlands and London have significantly lower awareness levels amongst both all firms and just companies. The South East and North East have lower awareness levels that are significant just for the companies only sample.

Table 4.6.3 Awareness of local venture capital funds or local support programmes to help prepare a pitch to an external investor

Probit regression analysis	Local venture capital fund		Local support programmes to help prepare a pitch	
	All businesses	Companies only	All businesses	Companies only
Number of employees(a)				
1-9	-0.02	0.06	0.19	-0.01
10-49	-0.00	-0.03	0.04	-0.19
50-249	0.13	-0.07	0.04	-0.28
Industry(a)				
Construction	-0.26*	-0.25*	-0.35**	-0.28
Distribution	0.12	0.01	-0.04	-0.08
Business services	0.07	-0.05	-0.11	-0.11
Other services	-0.05	0.01	-0.11	-0.05
Agriculture	0.04	-0.37	0.00	0.04
Region(a)				
London	-0.37**	-0.41**	-0.77***	-0.97***
South East	-0.42**	-0.63***	-0.17	-0.50**
East	-0.16	-0.23	-0.03	-0.12
South West	-0.24	-0.54**	-0.01	-0.33
East Midlands	-0.15	-0.08	-0.66***	-0.84***
Yorkshire and Humber	0.05	0.14	-0.13	-0.01
North West	-0.32*	-0.53**	-0.20	-0.41
North East	-0.55***	-0.70**	-0.18	-0.55*
Wales	0.57***	0.79***	0.39**	0.54**
Scotland	-0.26	-0.58**	0.07	-0.13
N Ireland	-0.09	0.09	0.18	0.15
Deprived area	-0.01	0.01	0.16	0.13
Business factors				
Super grower	0.17*	0.20	0.17	0.19
Female led	-0.13	-0.04	0.04	0.04
Old firm	0.14	0.17	-0.12	-0.17
No A' level	-0.28***	-0.20	-0.53***	-0.54***
Owner has degree qualified	-0.05	-0.01	-0.08	-0.07
Finance qualified	0.20**	0.25**	0.27***	0.28**
Business improver	0.04	-0.07	0.24***	0.10
Exporter	0.21*	0.14	0.29**	0.24*
Web for trading advice	0.15*	0.28***	0.04	0.10
Accountant advice	0.26***	0.20	0.15	0.24
Other advice	0.10	0.03	0.09	0.15
Observations	1,685	930	1,685	930
Chi ²	129.6	101.6	128.7	93.4
Pseudo R ²	0.08	0.10	0.11	0.12

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

Executive Summary

- *This chapter examines the proportion of firms seeking external finance in the last three years, the type of finance sought and their success in obtaining it. It also examines SMEs' attitudes to raising new equity finance and their awareness and use of capital allowances and R&D tax credits.*
- *The proportion seeking external finance has fallen from 44% to 36% between the 2004 and 2007 surveys. The fall has been greatest in the second and fourth employment and sales size classes. Most sectors show a lower proportion of firms seeking external finance in 2007 than in 2004. The notable exception is Manufacturing in which the proportion has risen from 39% to 45%.*
- *56% of those seeking finance sought new, or extended, overdraft facilities in the last three years compared with 32% in 2001-2004. The proportion seeking leasing/HP has fallen from 39% to 33%. Term loans and mortgages have remained at about 40% of those seeking external funds.*
- *In a multivariate context taking other relevant factors into account, we find:*
 - *a significant increase in the proportion of SMEs seeking finance in going from zero employee businesses to micro firms, and a further increase to the largest two size categories;*
 - *Other services and Construction have a significantly lower proportion seeking finance than found for Manufacturing;*
 - *no significant differences across the regions, or between deprived and other areas in the proportion seeking finance;*
 - *super growth firms are more likely to be seeking finance and there are no significant gender differences in finance seeking.*
 - *Business improvers are more likely to be seeking finance as are those using advice from others, and those with a qualified finance manager.*
 - *More profitable companies are less likely to need to seek external funds.*
- *Larger SMEs more commonly seek their external finance from a wider range of sources and are more likely to have sought their new finance from each type other than overdrafts.*
- *71% of all firms seeking new finance in the previous three years received all that they sought from one source, or another. On the other hand 15% of SMEs received none of the new finance they sought.*
- *The mean percentage of funds sought that were obtained was 81%. It ranges from just under 80% for zero employee businesses to over 90% for the largest SME group.*

- *Looking at success on a multivariate basis we find:*
 - *the proportion with no success falling and the proportion with 100% success rising with firm size, but it is not always statistically significant;*
 - *Manufacturing had a worse success rate than the other sectors when other factors are taken into account. Agriculture had a significantly higher success rate;*
 - *no significant differences in success rates across the regions despite the wide variations found;*
 - *firms with longer track records have greater success, whilst those with business leaders with lower educational qualifications have significantly less success.*

- *For all businesses the highest complete success rates (93%) are found in the two least used sources of new finance – asset-based finance (factoring etc.) and equity. The highest rejection rates are found for overdrafts (75% complete success and 10% outright rejection) and credit cards (70% complete success and 16% outright rejection). Leasing and hire purchase applications are generally successful (88% complete success, but 10% outright rejection). Finally, loans and mortgages exhibit a low outright rejection rate (4%) and a high probability of complete success (85%).*

- *When we examine on a multivariate basis the likelihood of a firm seeking these types of finance we find:*
 - *it increases with firm size for each type;*
 - *Manufacturing SMEs were more likely than other sectors to be raising finance;*
 - *the marked exception to this is the significantly greater use of new loans and mortgages by the Business services firms;*
 - *regional effects are generally insignificant when factors such as firm size, age and sector are taken into account;*
 - *the profit margin has a negative and generally significant effect on the likelihood of seeking new finance from these sources;*
 - *super growth firms are more likely to be seeking funds, but this is significant only for overdrafts and credit card finance;*
 - *old firms are less likely to be seeking finance, but business improvers are significantly more likely to be seeking funds from these sources.*

- *About 29% of businesses that were refused some or all funding said that they always obtained the further funding they needed from another source and a further 18% sometimes found the finance. The most common alternative provider was a different bank (45%), but family and friends also represent a significant proportion (30%).*

- *The mean amount sought was £470,000 compared with £82,000 in the 2004 survey, but there are some large observations since the median is £45,000 for the 2007 survey. The difference in mean compared with the 2004 survey appears to be the average amounts sought by those firms with fewer than fifty employees.*

- *When examined in a multivariate context we find:*
 - *The amounts sought by micro firms do not differ significantly from that sought by zero employee firms. On the other hand, the amount sought rises significantly with firm size beyond ten employees;*
 - *other sectors have sought a higher amount of finance than Manufacturing SMEs. The difference is large and highly significant for Business services, and marginally significant for Agriculture;*
 - *regional differences in the amount sought are only rarely significant;*
 - *firms with lower profit margins are significantly more likely to seek higher amounts;*
 - *female led businesses appear to seek lower amounts than their male counterparts (but with no greater success), even after taking account of a range of factors, like business size, sector, profit margin and age.*

- *One fifth of corporate SMEs would consider raising equity and this rises with the size of the firm as measured by sales; but employment size shows no particular pattern. The sectoral results are also peculiar since the sector that did apply the most for equity finance, Agriculture, shows the lowest inclination to do so.*

- *Awareness of capital allowances and tax credits is under 50% in almost every case but is higher for incorporated SMEs than other legal forms: 44% of them are aware of capital allowances for SMEs compared with 33% for all SMEs; 36% of them are aware of R&D tax credits compared with 28% for SMEs overall; and 33% of incorporated SMEs are aware of the more specialised capital allowances for energy saving technologies compared with 25% for all SMEs.*

- *The differences in use of these are not as great. Incorporated SMEs make more use of capital allowances, 9% of them compared with 5% of all SMEs; but the other two are used by the same proportion of incorporated and non-incorporated SMEs, 2% of them for energy capital allowances and 1% for R&D tax credits.*

- *The final multivariate analysis examines the businesses' awareness of local venture capital support and support programmes for the preparation of business pitches. We find:*
 - *the size of a business is not associated with awareness of these schemes and only Construction businesses are significantly different from other sectors in showing a substantially lower awareness;*
 - *having lower educational qualifications is negatively, and having a financially qualified manager is positively, associated with awareness levels;*
 - *being a business improver, exporting, having a website for trading and taking an accountant's advice are generally positive influences on awareness of these schemes, though not always significantly;*
 - *awareness is relatively high in the West Midlands. The North East, North West, London, South East, Scotland and the South West all have significantly lower awareness levels of their local venture capital scheme. Only Wales shows a significantly higher awareness of their local venture capital fund than the West Midlands.*
 - *the picture is similar for awareness of support for business pitch preparation, with Wales the only region with a significantly higher awareness than West Midlands. The East Midlands, North East, South East and London have significantly lower awareness levels.*

5 Rejection, Discouragement and Reluctance

One of the most persistent findings of studies of access to finance by small firms in the UK is that they typically have very high rates of success in obtaining the funds they seek. This has nonetheless led to the suggestion that the results may understate the extent of failure to obtain financing. This may be argued because firms who might otherwise have sought finance think their chances of obtaining it are so low that they are discouraged from applying. In addition, there is a group of firms that do need finance but are reluctant to seek finance for a variety of other reasons (i.e. too expensive, too time-consuming, prefer not to borrow, did not know how to go about it, or did not want to lose control). In this way, it may be argued that, although firms generally obtain the amount of finance they seek, they do not necessarily obtain the kind of finance that they would have preferred as their first option.

In this chapter we therefore examine rejection and discouragement in some detail. In particular, we attempt to disaggregate rejection and discouragement by type of finance needed and explore the implications of failures to obtain the type or amount of finance required.

5.1 Rejection, Discouragement and Reluctance: Overview

We start with an overall summary of the need for new finance and the extent of rejection, discouragement and reluctance. In comparing the data in this table for 2004 and 2007 it is important to bear in mind that several questions were asked in different ways in the two years. To ensure maximum comparability we have, where possible, recalculated the 2004 data to ensure it matches the 2007 question format.

In Table 5.1.1, the first row shows that 36% of the business population had sought finance in the previous three years. This compares to 44% in the earlier survey. Of those seeking finance 26% were wholly or partially rejected in 2004 which is somewhat less than the 29% rate in the 2007 survey. In 2007 the partial rejection (a firm is included in this category if it was partially rejected by at least one source of finance) rate was 17% and full rejection (sought finance and rejected by all of these) 12%. This breakdown is not available for the 2004 survey measured in this way.

We can identify, within the 64% who did not seek finance three categories: those that did not need any type of finance; those that were discouraged in the sense that they did not seek any type of finance and stated that they did not seek finance because they thought they would be turned down; and those that did not seek any finance for some other reason. The latter two categories are combined in the tables that follow under the term a reluctant business.

On this basis 4.4% of those not seeking finance were discouraged and 62% did not need the finance. This low rate of discouragement is similar to that for the 2004 survey using the same definition of discouragement³, and the proportion not seeking finance because they did not need it is also much the same.

³ This definition of discouragement differs from that used in the 2004 report. There a business was defined as discouraged even if they sought at least one type of finance so long as it was discouraged from at least one as well.

The category of a reluctant firm includes those defined above as discouraged and those firms that did not seek finance because the respondent: thought it would be too expensive; or time consuming; or preferred not to borrow; or wished to avoid giving up control of their business; or did not know how to go about getting the type of finance needed. On this basis Table 5.1.1 shows that 38% of businesses in the 2007 survey can be classed as reluctant; and this is similar to that found in 2004.

Turning now to the differences across the business groups, if for simplicity we focus on the columns showing the proportion with partial or outright rejection of those that sought finance, a number of important features emerge from Table 5.1.1.

The first of these is that smaller businesses are more likely to be rejected. Thus, 33% of firms with zero employees and 37% of firms with a turnover of less than £50,000 experienced either partial or outright rejection of their approaches. However, outright rejection was relatively small, at 14% in both cases. Outright rejection was highest in the £500,000 to £1million turnover group, but the outright rejection rate shows a more consistent pattern across the employment size classes.

When we look at the analysis by industry, Manufacturing and Construction had the highest rejection rates at 33% and 35% respectively. Although, once again, outright rejection was rather low in the case of Construction, being only 12%.

Super growers were much more likely to fail in their applications for funding. 42% of super growth firms met with partial or outright rejection compared to only 22% for other firms. But super growth firms fare no worse in terms of outright rejection.

When we turn to discouragement, in addition to having high failure rates, it also turns out that small businesses with less than ten employees also have relatively high rates of discouragement. The same is true for Construction and Wholesale and Retail trades. Construction has both high rates of rejection and high rates of discouragement. Super growth firms were more likely to feel discouraged.

The column with reluctant businesses includes the discouraged category, but also includes many other reasons why firms may want finance, but not seek it. The pattern across size groups is clear. The proportion of firms that is reluctant rises with firm size, matching the decline in the proportion of firms that did not need finance as firm size increased.

Reluctance is highest for Agriculture, but this sector also had the lowest proportion not seeking finance because they did not need it. Construction shows the opposite pattern with the highest proportion not needing finance and the lowest proportion of reluctant businesses.

Super growth firms have a somewhat higher proportion needing finance and feeling reluctant to pursue it.

Table 5.1.1: % of SMEs needing new finance, which were rejected outright, partially or discouraged from applying for finance

Category	Sought finance	of those seeking finance				of those not seeking finance			
		Partial rejection (a)	Outright rejection (b)	Partial or outright rejection	Complete success	Discouraged (new def) (c)	Reluctant (incl. discouraged) (d)	Did not need finance (e)	
All businesses 2004(f)	44%			26%	74%	3.2%	39%	61%	
All businesses 2007(g)	36%	17%	12%	29%	71%	4.4%	38%	62%	
Number of employees(g)									
	0	32%	19%	14%	33%	67%	5.0%	37%	63%
	1-9	43%	14%	9%	23%	77%	2.4%	41%	59%
	10-49	59%	11%	6%	17%	83%	2.3%	43%	57%
	50-249	58%	14%	2%	16%	84%	1.2%	50%	50%
Turnover(h)									
	Less than £49,999	30%	23%	14%	37%	63%	3.6%	35%	65%
	£50,000-£499,999	40%	16%	8%	24%	76%	6.5%	45%	55%
	£500,000-£999,999	63%	10%	23%	33%	67%	3.8%	45%	55%
	£1,000,000+	54%	16%	4%	20%	80%	0.8%	50%	50%
Industry(g)									
	Agriculture	37%	14%	17%	31%	69%	0.8%	48%	52%
	Manufacturing	45%	16%	18%	33%	67%	2.2%	40%	60%
	Construction	25%	23%	12%	35%	65%	4.4%	34%	66%
	Wholesale/retail	37%	11%	19%	30%	70%	7.7%	39%	61%
	Service sectors	38%	18%	8%	26%	74%	4.1%	40%	60%
Growth firm(i)									
	Super growth	50%	33%	10%	42%	58%	4.7%	40%	60%
	Other	33%	10%	11%	22%	78%	4.1%	37%	63%

(a) Businesses could make more than one application for the same type of finance over the three year period. They could also apply for more than one type of finance. A business could therefore have both a partial and an outright rejection for a given source of finance or an outright rejection for one type of and full or partial success for another. Businesses included in this column have at least one incidence of partial rejection either within or across types of finance.

(b) Businesses are included in this column who recorded failure to obtain any funding for each of the applications they made.

(c) Businesses are defined as discouraged if they did not seek any type of finance and they stated that they did not seek finance because they thought they would be turned down. This definition of discouragement differs from that used in the 2004 report. There a business is defined as discouraged even if they sought at least one type of finance so long as it was discouraged from at least one as well.

(d) A business is defined as reluctant if it is either already defined as discouraged or it stated that it did not seek finance because it thought it would be too expensive or time consuming or that they preferred not to borrow, or wished to avoid giving up control of their business or that they did not know how to go about getting the type of finance.

(e) A business is defined as not needing finance in 2007 if it did not seek any type of finance and also stated that it did not need each type of finance, or that they were happy with the finance they had or could get it from family and friends if needed. It is not possible to create this variable definition from the 2004 data. Instead not needing finance is defined as not seeking any type of finance and stating that there was no need for at least one type of finance which they were not already using.

(f) Base: All businesses 2004: n=3,625,416 (Unweighted: n=2,500); seeking finance: n=1,594,619 (Unweighted: n=1,443); not seeking finance: n=2,030,797 (Unweighted: n=1,057)

(g) Base: All businesses 2007: n=4,256,339 (Unweighted: n=2,514); seeking finance: n=1,523,114 (Unweighted: n=1,214); not seeking finance: n=2,733,225 (Unweighted: n=1,300)

(h) Base: All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026); and seeking finance: n=1,307,940 (Unweighted: n=1,019); and not seeking finance: n=2,103,207 (Unweighted: n=1,007)

(i) Base: All businesses reporting growth: n=3,169,095 (Unweighted: n=2,059); and seeking finance: n=1,124,440 (Unweighted: n=1,004); and not seeking finance: n=2,044,655 (Unweighted: n=1,055)

Table 5.1.2 provides a further analysis of the characteristics of firms by success in seeking finance. If we turn first to the seeking of finance by businesses with female leadership, it appears that there is very little variation in the incidence of partial or outright rejection by business leadership. However, when we examine those not seeking finance, there is some evidence that female-led businesses are more likely to feel discouraged, or reluctant. Thus the percentages of discouraged and reluctant businesses in this category were 7.5% and 40% compared to 4.1% and 37% for male-led businesses. These modest differences are analysed in Section 4.3 where the influence of other business characteristics is taken into account.

Younger businesses are more likely to face partial or outright rejection and are also somewhat more likely to be seeking finance. They are not, however, more likely to be discouraged. On the contrary, they are less likely to be discouraged than older businesses. They also have a somewhat lower tendency to be reluctant.

As might be expected, businesses whose leaders had relatively limited business experience tended to have higher partial or outright rejection rates. Thus, those with business experience of less than one year, had partial or outright rejection in 58% of cases which is twice the overall rate for the business population as a whole. Businesses whose managers had 1-3 years experience also suffered higher partial or outright rejection rates of 40%. This latter group also was the most likely of all business experience groups to report that they were discouraged, or reluctant.

The presence or absence of advice had little impact on either failure rates, the rate of discouragement or reluctance to borrow. The presence of a formally qualified or trained financial manager led to somewhat lower than typical outright or partial failure rates and to a modestly lower rate of discouragement and of reluctance to borrow.

Firms that had switched bank in the last year had higher rates of partial or outright failure in the past three years. Thus, they were faced with partial or outright rejection in 54% of cases compared to 29% for the population as a whole. However, in only 11% of these cases was the rejection total. None of these businesses could be classified as discouraged and they represented a much lower proportion of the reluctant pool.

Finally, it is worth noting that firms in deprived areas had, if anything, lower rates of partial or outright failure. They exhibited no difference in discouragement rates or reluctance rates compared to businesses operating outside these areas.

Table 5.1.2: % of SMEs needing new finance, which were rejected outright, partially or discouraged from applying for finance

Category	Sought finance	of those seeking finance				of those not seeking finance			
		Partial rejection (a)	Outright rejection (b)	Partial or outright rejection	Complete success	Discouraged (new def) (c)	Reluctant (incl. discouraged) (d)	Did not need finance (e)	
All businesses	36%	17%	12%	29%	71%	4.4%	38%	62%	
Female leadership									
	<50%	35%	18%	11%	29%	71%	4.1%	37%	63%
	=50%	43%	19%	5%	24%	76%	0.4%	46%	54%
	>50%	33%	12%	17%	29%	71%	7.5%	40%	60%
Age of business									
	<2 yrs	40%	24%	16%	40%	60%	2.5%	37%	63%
	2-9 yrs	39%	20%	7%	27%	73%	5.2%	39%	61%
	10+ yrs	32%	12%	14%	25%	75%	4.5%	38%	62%
Business experience									
	<1 year	33%	41%	17%	58%	42%	3.3%	32%	68%
	1-3 years	39%	30%	10%	40%	60%	7.3%	37%	63%
	4-9 years	41%	20%	9%	30%	70%	2.0%	30%	70%
	10+ years	34%	12%	12%	24%	76%	4.8%	42%	58%
Business advice									
	No advice	32%	14%	15%	28%	72%	3.6%	35%	65%
	Advice	39%	19%	10%	29%	71%	4.6%	39%	61%
Formally qualified or trained financial manager									
		39%	17%	6%	23%	77%	3.5%	40%	60%
Switched bank in last year									
		61%	43%	11%	54%	46%	-	25%	75%
Deprivation (15%)									
	Deprived area	29%	17%	7%	24%	76%	3.3%	37%	63%
	Other	37%	17%	12%	30%	70%	4.7%	39%	61%

(a) Businesses could make more than one application for the same type of finance over the three year period. They could also apply for more than one type of finance. A business could therefore have both a partial and an outright rejection for a given source of finance or an outright rejection for one type of and full or partial success for another. Businesses included in this column have at least one incidence of partial rejection either within or across types of finance.

(b) Businesses are included in this column who recorded failure to obtain any funding for each of the applications they made.

(c) Businesses are defined as discouraged if they did not seek any type of finance and they stated that they did not seek finance because they thought they would be turned down. This definition of discouragement differs from that used in the 2004 report. There a business is defined as discouraged even if they sought at least one type of finance so long as it was discouraged from at least one as well.

(d) A business is defined as reluctant if it is either already defined as discouraged or it stated that it did not seek finance because it thought it would be too expensive or time consuming or that they preferred not to borrow, or wished to avoid giving up control of their business or that they did not know how to go about getting the type of finance.

(e) A business is defined as not needing finance in 2007 if it did not seek any type of finance and also stated that it did not need each type of finance, or that they were happy with the finance they had or could get it from family and friends if needed. It is not possible to create this variable definition from the 2004 data. Instead not needing finance is defined as not seeking any type of finance and stating that there was no need for at least one type of finance which they were not already using.

Base: All businesses: n=4,256,339 (Unweighted: n=2,514); seeking finance: n=1,523,114 (Unweighted: n=1,214); not seeking finance: n=2,733,225 (Unweighted: n=1,300)

So far we have considered those firms needing finance without reference to the particular kind of finance needed. An analysis of rejection and discouragement is provided in Table 5.1.3 that distinguishes between overdrafts, commercial loans or mortgages, leasing or hire purchase, and equity finance or shares. In each row the proportions are measured relative to those businesses seeking that particular type of finance⁴. In the case of equity finance or shares, the number of cases is too small for the analysis to be statistically useful and the results for all businesses are only included for completeness.

Table 5.1.3: Rejection and discouragement by type of finance

Category	Unweighted base	Partial rejection (a)	Outright rejection (b)	Discouraged (c)	Reluctant (d)
All businesses					
Overdraft(e)	642	15%	10%	12%	49%
Commercial loan or mortgage(f)	433	11%	4%	16%	61%
Leasing or hire purchase(g)	634	2%	10%	18%	66%
Equity finance or shares(h)	48	1%	6%	25%	96%
Overdraft(e)					
Employees: 0	96	16%	11%	15%	54%
Employees: 1-9	191	15%	9%	7%	38%
Employees: 10-49	230	11%	7%	4%	28%
Employees: 50+	125	8%	6%	9%	26%
Commercial loan or mortgage(f)					
Employees: 0	56	12%	4%	18%	66%
Employees: 1-9	124	11%	2%	13%	51%
Employees: 10-49	158	7%	9%	4%	35%
Employees: 50+	95	3%	11%	0%	28%
Leasing or hire purchase(g)					
Employees: 0	42	2%	13%	28%	76%
Employees: 1-9	156	2%	9%	6%	47%
Employees: 10-49	261	2%	4%	1%	17%
Employees: 50+	175	0%	3%	2%	23%

(a) Businesses could make more than one application for the same type of finance over the three year period. A business could therefore have both a partial and an outright rejection for a given source of finance. Businesses included in this column have at least one incidence of partial rejection within types of finance.

(b) Businesses are included in this column that recorded failure to obtain any funding for each of the applications they made.

(c) Businesses are defined as discouraged if they did not seek any type of finance and they stated that they did not seek finance because they thought they would be turned down.

(d) A business is defined as reluctant if it is either already defined as discouraged or it stated that it did not seek finance because it thought it would be too expensive or time consuming or that they preferred not to borrow, or wished to avoid giving up control of their business or that they did not know how to go about getting the type of finance.

(e) Base: Businesses seeking an overdraft: n=851,223 (Unweighted: n=642); seeking and discouraged: n=966,577 (Unweighted: n=674); seeking and reluctant: n=1,661,008 (Unweighted: n=990)

(f) Base: Businesses seeking a loan: n=593,279 (Unweighted: n=433); seeking and discouraged: n=703,339 (Unweighted: n=469); seeking and reluctant: n=1,514,373 (Unweighted: n=858)

(g) Base: Businesses seeking hire purchase: n=495,687 (Unweighted: n=634); seeking and discouraged: n=600,992 (Unweighted: n=660); seeking and reluctant: n=1,437,849 (Unweighted: n=994)

(h) Base: Businesses seeking equity: n=25,745 (Unweighted: n=48); seeking and discouraged: n=34,297 (Unweighted: n=62); seeking and reluctant: n=613,531 (Unweighted: n=652)

⁴ Rejection rates are given as a percentage of those that applied for that type of finance. Discouragement (reluctance) rates are given as a percentage of those that applied plus those that for that type of finance were discouraged (reluctant).

The analysis is provided for all businesses and for businesses of different sizes in terms of employment. If we focus, first of all, on rejection, it is clear that, if we take businesses as a whole, overdrafts have the highest rates. Commercial loans and mortgages have a higher partial rejection, but lower outright rejection than is the case for HP and Leasing. Overdrafts have by contrast lower proportions of discouraged and reluctant businesses amongst those not seeking finance.

There are some differences in rejection and discouragement rates by size class. Outright rejection in terms of overdrafts is highest in the zero employment size class and falls to 6% when the number of employees is greater than 50. In the case of partial rejection, the rate also falls from 16% and 15% respectively for those with zero and one to nine employees to 8% for those employing more than fifty people. The pattern of discouragement in relation to overdrafts displays a similar size-related gradient with the highest rates of discouragement of 15% and reluctance in the zero employee size class.

In relation to commercial loans and mortgages the pattern by size is less clear. In terms of outright rejection, firms with over fifty employees experienced the highest rate (11%). This compares with 4% outright rejection for those with no employees, 2% for those with employees in the one to nine group and 9% for those with ten to forty-nine employees. The pattern of partial rejection in relation to commercial loans and mortgages did, however, show a decrease in gradient from the smallest to the largest firms. Thus, 12% of zero employee firms experienced partial rejection, whereas only 3% suffered partial rejection of commercial loan or mortgage applications in the size class of firms with over fifty employees.

Discouragement in relation to loans and mortgages was also much higher in the zero and one to nine groups in terms of employment than it was in the larger size classes; but the reluctant category falls with the size of business.

In the case of leasing and hire purchase there was a falling gradient in rejection and discouragement rates for all except partial rejection. In the partial rejection case 2% of those seeking leasing and hire purchase suffered partial rejection in all size classes except that where the number of employees was over fifty. In that case there were no partial rejections.

Overall, the picture suggests that rejection and discouragement tend to be size-related and that those with zero and one to nine employees experience in general the highest rates of outright partial rejection and discouragement. It has to be remembered, however, that the vast majority of businesses in all size classes obtained the finance that they sought.

5.2 Reasons for and Reactions to Rejection

The reasons for outright and partial rejection by type of finance are reported in Table 5.2.1. It is important to note, however, that the number of firms responding is low and therefore the results are subject to some statistical unreliability. If we consider overdrafts, it is clear that the most important factor was a lack of credit history or of poor credit history and insufficient security. Poor personal credit history was also an important factor in relation to leasing where a lack of business credit history was also important, as was the presence of too much existing debt.

Table 5.2.1: Reasons for outright and partial rejections by type of finance

Category	Overdraft (a)	Term loan/ mortgage (b)	Leasing/HP (c)
No credit history	17%	4%	17%
Poor personal credit history	15%	1%	20%
Insufficient security	14%	9%	-
Too much existing debt	6%	-	20%
No security	5%	1%	-
Inadequate business plan	5%	-	-
Poor business credit history	2%	1%	21%
Applied for too much	2%	-	-
Industry too risky	0%	3%	-
Applied for too little	-	-	1%
Value of property	-	4%	-
No reason given	6%	29%	22%
Other	8%	27%	14%
Don't know	20%	21%	24%

(a) Base: Businesses that were denied an overdraft: n=162,005 (Unweighted: n=98)

(b) Base: Businesses that were denied a loan or a mortgage: n=75,266 (Unweighted: n=47)

(c) Base: Businesses that were denied leasing/HP: n=28,967 (Unweighted: n=20)

Insufficient security was the most important reason for rejection of loan or mortgage applications. A large number of businesses gave miscellaneous other reasons in each category of finance. A fifth of all those suffering outright or partial rejection did not know the reason for the rejection. This either indicates a lack of transparency in decision taking by banks and conveying the reasons to customers or a lack of enquiry by customers as to why their applications failed or a reluctance to reveal the true reason if they knew it.

The impact of rejection is illustrated in Table 5.2.2, although, once again, the small sample numbers must be borne in mind in interpreting the results. If we focus on overdrafts, rejection resulted either in the deferral of plans, but they subsequently went ahead (7% of cases) or, much more likely, funding was sought from elsewhere (35% of cases) or internal sources of finance were used (16% of cases).

In 20% of the cases the business got into serious financial difficulties as a result of the rejection of an application for an overdraft. In only 10% of cases were plans dropped as a result of not getting an overdraft.

In the case of term loans and mortgages, 51% got the funding elsewhere and 13% deferred their plans, but eventually went ahead anyway. A further 8% got into serious financial difficulties. There were a large number of 'Don't know's' in response to this question for loans and mortgages.

Table 5.2.2: Effect of rejection by type of finance

Category	Overdraft (a)	Term loan/ mortgage (b)
Got funding elsewhere	35%	51%
Financed it from internal sources	16%	1%
Deferred plans but eventually went ahead	7%	13%
The business got into serious financial difficulties	20%	8%
Had to drop plans	10%	1%
Other	7%	13%
Don't know	9%	22%

(a) Base: Businesses that were denied an overdraft: n=162,005 (Unweighted: n=98)
(b) Base: Businesses that were denied a loan or a mortgage: n=75,266 (Unweighted: n=47)

The survey included a number of reasons that firms could offer for not applying for finance. Table 5.2.3 analyses the reasons for those that did not apply for each type of finance.

Table 5.2.3: Reasons for not applying for finance by type of finance

Category	Overdraft (a)	Term loan/ mortgage (b)	Leasing/HP (c)	Equity (d)
Do not need this type of finance	69%	80%	79%	31%
Happy with product/ finance of this type we currently have	28%	15%	10%	13%
Prefer not to borrow	20%	21%	20%	-
Can get finance from family and friends if needed	8%	7%	6%	-
Thought it would be too expensive	4%	7%	9%	3%
Thought I would be turned down	3%	3%	3%	1%
Other	1%	1%	1%	4%
<i>Equity only codes</i>				
Do not need it as have finance from other sources				32%
Don't want to give up control of business				35%
Thought it would be time consuming				3%
Don't know how to go about it				6%

(a) Base: Businesses that did not apply for an overdraft: n=3,405,116 (Unweighted: n=1,872)
(b) Base: Businesses that did not apply for a loan or a mortgage: n=3,663,060 (Unweighted: n=2,018)
(c) Base: Businesses that did not apply for leasing/HP: n=3,760,652 (Unweighted: n=1,880)
(d) Base: Companies that did not apply for new equity finance: n=1,421,230 (Unweighted: n=1,368)

If we look first of all at overdrafts, then the principal reason for not applying for an overdraft was that this type of finance was not needed which was true for 69% of the cases of firms not applying for an overdraft. 28% were happy with the overdraft they had, 20% preferred not to borrow, and only 3% did not apply for an overdraft, because they thought they would be turned down.

In relation to term loans and mortgages, 80% of those who did not seek this finance, did so, because they did not need it. 21% did not apply because they preferred not to borrow and 15% were happy with the product / finance of this type that they had currently. Only 3% were discouraged by the thought of being turned down in their mortgage or loan application.

In relation to leasing, once again, the principal reason for not applying was due to not needing that type of finance. Preferring not to borrow accounted for 20% who did not apply which was similar to the case for overdrafts and term loans and mortgages. 9% thought the funding would be too expensive via this source. This is the highest percentage given for this reason in relation to not seeking any of the types of finance. In the case of overdrafts, for instance, only 4% thought that it would be too expensive and therefore did not apply. The discouragement rate for leasing is the same as for the other forms of finance.

In the case of equity a rather different set of questions applied; and they were only asked of incorporated businesses. The data relating to these are shown in the final column of the table. This shows that 31% of those who did not seek equity thought it was because it was not the type of finance they needed and 13% were happy with the product / finance of this type that they already had. 32% claimed they did not need it, because they had finance from other sources. It is noticeable, however, that 35% of those who did not apply for equity did so, because they did not wish to give up control of the business.

Clearly the desire to maintain independence and control is an important factor in the reasons given for not applying for equity. This factor should be taken alongside the relatively low proportion of firms who said they did not apply for equity, because they did not need this type of finance, at 31% this was much lower than the proportions of those stating that they did not need this type of finance in relation to overdrafts, loans and mortgages, or leasing. This implies that firms believe they need equity finance, but are unwilling to apply for it, because they do not wish to give up independence.

Table 5.2.4 analyses if and where rejected firms obtained other funding. The number of underlying responses is small and so the results must be read bearing that in mind; and it is not possible to analyse by business characteristics, because sample sizes become very small once the data are cross-classified. In 29% of cases of rejection, finance was always obtained elsewhere and in a further 18% of cases it was sometimes obtained elsewhere.

In 45% of these cases the finance was obtained from another bank, which is consistent with the evidence presented earlier that switching firms were more likely to have experienced rejection. In a further 9% of cases the main bank provided finance in the form of a different product from that originally sought and in 30% of cases family and friends provided the funds. It is interesting that only 11% of rejected businesses said that they were referred to another source of possible funding.

Table 5.2.4: Consequences of rejection

Category	All businesses	Unweighted base
Referred to another source after rejection?(a)		174
Yes	11%	
Obtained finance?(a)		174
Always	29%	
Sometimes	18%	
Who provided this finance(b)		99
Different bank	45%	
Friends & family	30%	
Same bank via different product	9%	
Other	10%	

(a) Base: All businesses that experienced rejection: n=301,350 (Unweighted: n=147)
(b) Base: All businesses that obtained the funding: n=141,287 (Unweighted: n=99)

5.3 Multivariate Analysis

In this section we carry out a series of probit regressions using the unweighted dataset to identify the association between a range of business variables as well as industry and sector and the likelihood of partial or outright rejection and reluctance to borrow.

If we turn first to the analysis of partial or outright rejection shown in the first two columns of Table 5.3.1, those firms that were partially or completely rejected are compared as a group with those that sought finance and obtained complete success. A positive coefficient shows that the factor is positively associated with the likelihood of rejection. The first column shows the findings for the largest possible sample.

The first result to emerge is that in general there is a lower probability of partial or outright rejection for all sizes of firms with one or more employees compared to the comparator zero employee group. In general, as the coefficients on the size classes indicate, the larger the size of firm in terms of employment, the less likely partial or outright rejection is. There is no discernable influence of sector on the likelihood of partial or outright rejection.

With the single exception of London where rejection rates are significantly higher (at the 10% level only), there are no discernable regional effects, nor is gender significant. Only two business factors appear to impact on rejection rates. The first of these is that a lack of A-level qualifications raises the likelihood of rejection. The second is that firms which are at least ten years old have a lower likelihood of rejection. It is interesting to note that the presence or absence of a financially qualified manager, the presence or absence of advice, and the profit margin (not reported in the table) all have no impact on rejection rates.

The second column adds two further variables: one which has a unit value if the firm exceeded its overdraft in the past year; and the other has a unit value if the firm was late in making a repayment during the last year. For each of these variables the value zero was assigned to all other cases. The inclusion of these variables reduces the number of cases for analysis, but the findings from the first column are by and large supported. The additional result is that partial, or outright, rejection is strongly associated with having an unauthorised overdraft, or failing to make a repayment on time, within the last year.

If we now turn to the final column of Table 5.3.1 that analyses those firms who were reluctant to raise finance in comparison with those that did seek to raise finance (i.e. those that said that they did not need finance have been excluded from this analysis), a similar picture arises in relation to size. Looking first at column three we can see firms that have zero employees are significantly more likely to be reluctant than those firms who sought finance.

As with partial and outright rejection, there are no industry, or regional, effects. There are a number of interesting relationships between business factors and reluctance to borrow. Super growth firms, business-improving firms, firms with a financially qualified manager and firms that seek advice from sources other than accountants are all less likely to be reluctant to borrow. Being an exporter appears to be associated with a reluctance to seek finance; a result that is somewhat difficult to rationalise in a simple manner.

Table 5.3.1 Multivariate analysis of the likelihood of rejection and reluctance

Probit regression analysis	Partial or outright rejection		Reluctance to borrow
Number of employees(a)			
1-9	-0.31*	-0.49	-0.32***
10-49	-0.49***	-0.27	-0.56***
50-249	-0.71***	-1.54***	-0.55***
Industry(a)			
Construction	0.09	-0.46	0.18
Distribution	0.40*	0.35	0.10
Business services	0.18	0.32	0.13
Other services	0.32	0.21	0.08
Agriculture	0.08	-0.44	0.16
Region(a)			
London	0.43*	-0.84	-0.33
South East	-0.27	-1.03	-0.23
East	0.31	-1.02	-0.21
South West	-0.05	-0.81	-0.21
East Midlands	0.27	-0.49	0.00
Yorkshire and Humber	0.12	0.34	-0.04
North West	0.01	-0.41	-0.02
North East	0.10	-0.34	0.09
Wales	0.06	-0.34	-0.13
Scotland	0.03	-0.36	-0.27
N Ireland	-0.47	-0.57	-0.31
Deprived area	-0.21	-0.49	0.15
Business factors			
Female led	0.10	-0.01	0.18
Super growth	0.02	-0.00	-0.25**
Old firm	-0.31**	-0.56**	0.04
No A' level	0.27**	0.82***	0.14
Owner has degree	0.13	0.60*	0.05
Finance qualified	-0.10	0.23	-0.19**
Business improver	0.05	0.42	-0.21**
Exporter	-0.05	-0.71*	0.24**
Web for trading	-0.06	0.20	-0.06
Accountant advice	-0.09	0.28	-0.04
Other advice	0.02	0.97***	-0.31***
Exceeded overdraft		0.69***	
Failed to make loan repayment		1.14**	
Observations	810	219	1,168
Chi ²	65.8	68.8	96.4
Pseudo R ²	0.09	0.29	0.07

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

Executive Summary

- *This chapter examines rejection (tried to raise finance and failed at least partially), discouragement (did not try in belief of failure) and reluctance (did not try to raise finance but did need it) in some detail.*
- *36% of the business population had sought finance in the previous three years. This compares to 44% in 2004. Of those seeking finance 26% were wholly or partially rejected in 2004, which is somewhat less than the 29% rate in 2007. In 2007 the partial rejection rate was 17% and full rejection 12%.*
- *The causes of rejection were examined in a multivariate context by including a range of business characteristics in the analysis. This showed that:*
 - *smaller businesses are more likely to be rejected, but even in the smallest size group outright rejection was relatively small at 14%;*
 - *there is no discernable influence of sector on the likelihood of partial or outright rejection;*
 - *with the single exception of London where rejection rates are significantly higher (at the 10% level only), there are no discernable regional effects, nor is gender significant;*
 - *a lack of A-level qualifications raises the likelihood of rejection;*
 - *firms which are at least ten years old have a lower likelihood of rejection;*
 - *rejection is strongly associated with having an unauthorised overdraft, or failing to make a repayment on time, within the last year.*
- *Of those not seeking finance, 62% did not need any finance, 4% were discouraged and 34% did not apply for a variety of other reasons. The latter two categories are combined as the reluctant group.*
- *When we analyse reluctance in a multivariate context, we find:*
 - *firms that have zero employees are significantly more likely to be reluctant than those firms who sought finance;*
 - *there are no industry, or regional, effects;*
 - *super growth firms, business-improving firms, firms with a financially qualified manager and firms that seek advice from sources other than accountants are all less likely to be reluctant to borrow.*
- *Overdrafts and commercial loans and mortgages have higher rejection rates than is the case for HP and leasing. They have by contrast a lower proportion of discouraged businesses amongst those needing these kinds of finance.*

6 Female Business Leadership

This chapter makes a comparison between female and male business leadership to discover whether there are differences between the business leaders, their businesses and their experience of financing their businesses.

Chapter 2 showed that the control of a business could be defined either by its ownership, or by its leadership. It also showed that about 10% of businesses have equal ownership and equal leadership by men and women. The analysis in this chapter focuses upon leadership rather than ownership and ignores businesses with equality between men and women in their control. Instead, it compares women-led businesses (17% of the population) with those led by men (73%).

6.1 Business Characteristics

It is important to understand the differences in the basic business characteristics of businesses run by women before examining the differences in the ways they finance and run their businesses since they may be inter-related. It is possible to draw a false conclusion that male-led and female-led businesses differ in, say, their success in raising finance when the true cause of this comes from the nature of the businesses they run.

These characteristics are shown in Table 6.1.1 below. It is apparent that female business leaders are slightly more likely to be running smaller businesses. 80% of female-led firms have no employees compared with 76% for male-led firms. Whilst 1% of male business leaders run firms with 50 or more employees, we found no example of this for female-led businesses in the survey. The significance of this difference is explored in the multivariate section at the end of this chapter.

Female-led businesses are also younger, with one-third established in the last two years compared with 15% for male-led firms. Only 35% had been in business for at least ten years, but 49% of male-led businesses had existed this long.

The sectoral composition of businesses differs markedly for female and male led firms. Female-led businesses have a lower presence in Manufacturing and Construction. On the other hand 71% of female-led SMEs are in the Service sectors compared with 49% of male-led firms.

There is little difference between the genders in legal form, but a tendency for female business leaders to favour partnerships more and incorporation less than their male counterparts, but the differences here are small. There are potential size and sector effects driving these findings and they may account for the wide variation in female leadership across the regions – 10% in East Midlands and Yorkshire and Humber, 25% in South East, compared with 17% nationally – and these differences will be explored later in a multivariate context.

Table 6.1.1: Business characteristics by gender of leadership

Category		Male led(a)	Female led(b)
Number of employees	0	76%	80%
	1-9	20%	17%
	10-49	3%	3%
	50-249	1%	0%
Industry	Agriculture	4%	4%
	Manufacturing	8%	4%
	Construction	26%	6%
	Wholesale/retail	13%	15%
	Service sectors	49%	71%
Legal status	Sole trader	64%	63%
	Partnership	5%	8%
	Limited company	31%	29%
Age of business	<2 yrs	15%	33%
	2-9 yrs	36%	32%
	≥10 yrs	49%	35%
Growth firm	Super growth	13%	10%
	Other	87%	90%

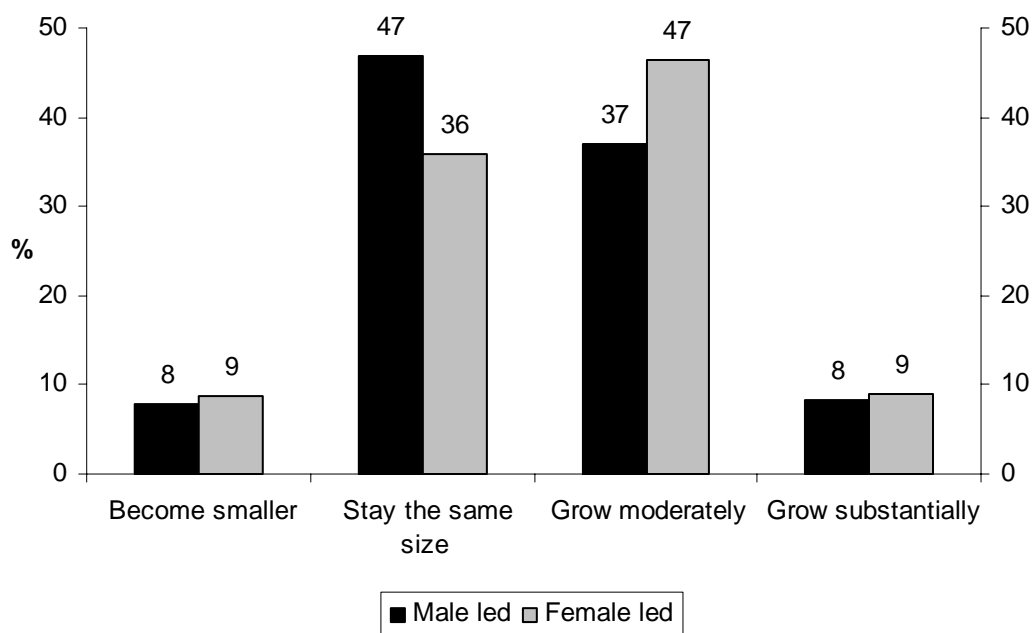
(a) Base: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722)

(b) Base: All female majority led businesses: n=729,912 (Unweighted: n=337)

Another aspect of businesses is their attitudes towards growth. Chart 6.1.1 examines differences in growth ambitions between male-led and female-led firms. It reveals a stronger growth orientation amongst female-led SMEs. Again we must be cautious in our interpretation since size, sector and age may influence growth ambitions. In particular, start-up firms (as more female-led businesses are) tend to grow faster. The multivariate analysis presented in Section 6.4 at the end of the chapter addresses this problem of interpretation.

The severity of the problems facing SMEs is addressed in Table 6.1.2 and split between female-led and male-led firms. It shows very little difference between the genders in their perceptions of business problems, but female-led businesses appear to be less concerned about red tape.

Chart 6.1.1: Growth objectives over the next three years by gender of leadership



Bases: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722);
All female majority led businesses: n=729,912 (Unweighted: n=337)

Table 6.1.2: Severity of problems faced by gender of leadership

Category		Male led(a)	Female led(b)
Production	Mean score(c)	2.6	2.6
	7-10	5%	5%
Sales	Mean score(c)	3.5	3.1
	7-10	12%	9%
Staffing(d)	Mean score(c)	2.8	2.1
	7-10	15%	15%
Finance	Mean score(c)	2.7	2.7
	7-10	6%	7%
Coping with red tape	Mean score(c)	3.9	3.2
	7-10	18%	13%

(a) Base: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722); With employees: n=735,724 (Unweighted: n=1,311)

(b) Base: All female majority led businesses: n=729,912 (Unweighted: n=337); With employees: n=148,073 (Unweighted: n=217)

(c) Scores ranged from 1=no problem to 10=critical problem

(d) Excluding businesses with no employees

Some further insight into female-led businesses, their ambitions and their methods can be seen in Table 6.1.3. Female business leaders are as likely to use a written plan and more likely to use a website for trading than male leaders. They are more likely to have introduced a new product, or service; and much more likely to have significantly improved an aspect of the business (43%) than have male-led businesses (32%).

On the other hand, female-led businesses are less likely to have qualified financial personnel, to have a written HR plan, to use TQM and PRP and to be exporting than are male-led businesses. It remains to be seen how far these differences can be accounted for by size, age and sector differences between male-led and female-led SMEs.

Table 6.1.3: Business strategies by gender of leadership

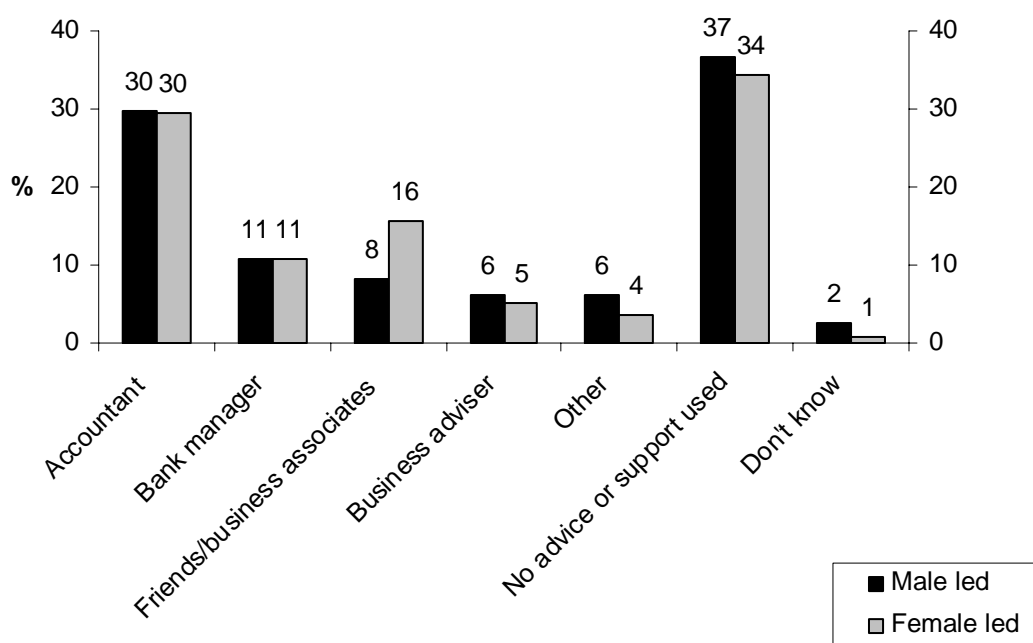
Category	Male led(a)	Female led(b)
Formally qualified or trained financial manager	26%	22%
Written business plan	28%	28%
Written HR plan(c)	22%	17%
Performance related pay(c)	22%	12%
Use total quality management	14%	11%
Web site for trading	33%	39%
Export goods or services	9%	4%
Developed new product or service in the past 3 years	13%	14%
Significantly improved a business aspect in the past 3 years	32%	43%

(a) Base: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722); With employees: n=735,723 (Unweighted: n=1,311)
(b) Base: All female majority led businesses: n=729,912 (Unweighted: n=337); With employees: n=148,073 (Unweighted: n=217)
(c) Excluding firms with no employees

Finally in this section, we examine differences in the sources of advice sought by female business leaders. Chart 6.1.2 shows the principal source of external advice for female and male business leaders. It shows no differences in the use of accountants (30%) and bank managers (11%). However, female-led businesses are more likely to turn to friends and business associates for advice – 16% compared with only 8% for male-led businesses. Female-led SMEs are less likely to obtain advice from business advisers and the other sources of external advice.

We now turn to examine whether there are differences in the financing of female-led businesses and begin by examining further their relationship with their bank.

Chart 6.1.2: Sources of financial advice by gender of leadership



Bases: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722);
 All female majority led businesses: n=729,912 (Unweighted: n=337)

6.2 Business Finance

This section addresses whether female business leaders have different financing arrangements and different relationships with finance providers than their male counterparts.

Table 6.2.1 reveals no differences between them in their use of a personal, or business account, for their business activities. However, female-led businesses show a shorter length of relationship with their main bank and with other finance providers than male-led firms. We find that female-led businesses have a shorter average relationship with their main bank than other providers – the opposite of that found for male-led firms.

We also find a slightly higher proportion of female-led firms (5%) have changed their main bank in the last year compared with male-led businesses (4%). Female-led businesses are also more likely to benefit from free banking in full, or in part, though this may reflect the higher proportion of start-ups amongst female-led businesses.

For those that pay bank charges, there is no gender difference in the median, but the mean level of bank charge is higher for male-led firms possibly reflecting their greater average size.

Table 6.2.1: Length of relationship with finance provider and type of current account by gender of leadership

Category	Male led	Female led
Average length of relationship (years)(a)		
with main bank	12	8
with other providers in addition to main bank	10	9
Switched bank in last year(a)	4%	5%
Main current account is:(a)		
Personal account	16%	17%
Business account	83%	83%
How do you pay for your business banking (business accounts only)?(b)		
I pay charges but receive interest on credit balances	58%	54%
I don't pay at all, have free banking	27%	30%
I don't receive credit interest but get some transactions free or at a discounted rate	8%	13%
Other	5%	2%
Don't know	3%	1%
Average monthly bank charge (business accounts only)(c)		
Mean(£)	116	76
Median(£)	50	50

(a) Bases: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722); All female majority led businesses: n=729,912 (Unweighted: n=337)

(b) Bases: All businesses with business accounts reporting on payment: Male majority led: n=2,184,390 (Unweighted: n=1,421); Female majority led: n=481,574 (Unweighted: n=248)

(c) Bases: All businesses with business accounts reporting bank charges: Male majority led: n=1,380,391 (Unweighted: n=980); Female majority led: n=257,564 (Unweighted: n=153)

Table 6.2.2 reports on the use of various forms of finance during the last three years. There is a greater use by male led firms of most types, current account (92%), overdraft (43%), commercial loans/mortgages (20%), leasing/hire purchase (19%) and credit cards (43%) compared to female led firms (85%, 33%, 12%, 14% and 39% respectively).

Female led businesses make slightly more use of deposit accounts (39% against 38% for male led) and grants (6% against 4%). Getting funding from family and friends is the same for both groups (11%), but male led firms use the owners, directors or shareholders to a larger extent than female led (16% against 8%).

We have shown in Section 3.8 of Chapter 3 that these differences are accounted for by factors, such as firm size and sector, other than the gender of the business leader.

Table 6.2.2: Types of finance used in the past three years by gender of leadership

Category	Male led(a)	Female led(b)
Current account	92%	85%
Overdraft	43%	33%
Deposit accounts	38%	39%
Grants	4%	6%
Commercial loans/mortgages	20%	12%
Loans from friends and family	11%	11%
Loans from the owners, directors or shareholders	16%	8%
Leasing or hire purchase	19%	14%
Factoring/invoice discounting finance	4%	2%
Credit cards	43%	39%
New equity finance/ issuing shares	1%	0%

(a) Base: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722)

(b) Base: All female majority led businesses: n=729,912 (Unweighted: n=337)

Later in this chapter we investigate the raising of new finance, but it is convenient to look here at whether our businesses are finding it easier, or more difficult, to get funding from these various sources than they did three years ago. This question was asked only of businesses that were at least three years old.

The answers, shown in Table 6.2.3, to these questions may give some insight into the different financing decisions taken by female and male business leaders.

The proportion answering '*Don't know*' is higher amongst female business leaders and fewer of them were prepared to answer either '*Harder*' or '*Easier*'. So we examine these answers by looking at the balance between the proportions saying '*Harder*' and those replying '*Easier*'.

Both male-led and female-led businesses argue on balance that leasing/HP and credit card finance are getting easier, whilst finance from grants is getting harder to obtain. They also both see little change in the difficulty of obtaining overdraft finance, funds from friends and family and new equity funds.

In terms of commercial loans, male-led businesses felt these had become easier to obtain, but the opposite was true for female-led firms. This would appear to be part of the explanation for the lower use of these by female-led firms. The same picture emerges, but less strongly, for loans from existing owners.

Table 6.2.3: Difficulties in obtaining finance now compared to three years ago by gender of leadership

Category	Male led(a)				Female led(b)			
	Harder	Easier	Unchanged	Don't know	Harder	Easier	Unchanged	Don't know
Type of finance used								
Overdraft	13%	13%	53%	21%	8%	8%	50%	34%
Grants	10%	2%	38%	50%	8%	1%	38%	54%
Commercial loans/mortgages	8%	9%	46%	36%	8%	4%	38%	50%
Loans from friends and family	5%	4%	49%	42%	4%	3%	43%	50%
Loans from the owners, directors or shareholders	4%	4%	49%	43%	4%	2%	43%	52%
Leasing or hire purchase	2%	12%	49%	36%	1%	9%	40%	49%
Factoring/invoice discounting finance	2%	4%	50%	44%	1%	1%	36%	61%
Credit cards	4%	19%	51%	27%	2%	17%	53%	28%
New equity finance/ issuing shares	2%	3%	48%	47%	1%	4%	40%	55%

(a) Base: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722)

(b) Base: All female majority led businesses: n=729,912 (Unweighted: n=337)

We now examine the size of deposits, overdrafts and mortgages and loans for male-led and female-led SMEs. The average size of deposit account balances is shown in Table 6.2.4. Despite their smaller average business size, female business leaders have higher deposit accounts on average.

Female-led businesses have somewhat lower overdrafts and a lower proportion requiring security (9%), or an arrangement fee (42%) than their male-led counterparts (20% and 59%) respectively. There is no evidence here that female business leaders are worse served by their banks.

A different picture emerges in relation to other loans and mortgages. Although female-led businesses hold more loans, three as opposed to two, the value is lower on average (£118k) than that of male-led businesses (£332k). Furthermore their terms are less favourable with 76% requiring security, 68% paying an arrangement fee, and an average loan length of 9 years compared with 52%, 62% and 11 years for male-led firms.

The use of the SFLG is very modest – 2% for female-led firms and 1% for male-led firms. Finally, the average amount outstanding from family, friends and shareholders is larger on average in male-led firms (£12k) than female-led firms (£3k).

Table 6.2.4: Deposits, overdrafts and loans by gender of leadership

Category		Male led	Female led
Average amount held on deposit(a)			
	Mean(£)	120,234	153,365
	Median(£)	7,500	30,000
Average overdraft limit(b)			
	Mean(£)	34,472	19,765
	Median(£)	4,000	3,000
	% requiring security	20%	9%
	% paying arrangement fee	59%	42%
Loans/mortgages(c)			
	Average number of loans/mortgages	2	3
	Amount outstanding - mean(£)	331,896	117,839
	Amount outstanding - median(£)	75,000	25,000
	% requiring security	52%	76%
	% paying arrangement fee	62%	68%
	Average length of loan (years)	11	9
	% obtained under SFLG scheme	1%	2%
Loans from friends and family; or owners, directors or shareholders – amount outstanding(d)			
	Mean(£)	180,848	27,399
	Median(£)	12,000	2,500
(a) Bases: All businesses reporting amount on deposit: Male majority led: n=884,177 (Unweighted: n=636); Female majority led: n=183,565 (Unweighted: n=97)			
(b) Bases: All businesses reporting overdraft limit: Male majority led: n=743,982 (Unweighted: n=468); Female majority led: n=125,566 (Unweighted: n=80)			
(c) Bases: All businesses reporting outstanding loans: Male majority led: n=353,645 (Unweighted: n=296); Female majority led: n=64,120 (Unweighted: n=63)			
(d) Bases: All businesses reporting amount outstanding from friends and owners: Male majority led: n=303,637 (Unweighted: n=217); Female majority led: n=87,838 (Unweighted: n=38)			

Leasing and HP arrangements are shown in Table 6.2.5 comparing female-led businesses with their male counterparts. The number of female businesses using leasing and HP in the sample is small and so the findings must be treated with caution.

It shows that female-led businesses were more likely to use leasing rather than hire purchase finance and that the monthly cost of agreements of either type is higher in male-led businesses.

A higher proportion (82%) of female-led businesses gave the pressure on cash flow as the reason for taking up this form of finance than male-led businesses (61%).

Female-led businesses were less likely to have been unable to make a repayment within the previous twelve months and this is explored further in the next table.

Table 6.2.5: Leasing and HP by gender of leadership

Category	Male led	Female led
Types used(a)		
Leasing only	32%	66%
Hire purchase only	42%	11%
Both leasing and hire purchase	23%	19%
Leasing/HP agreements		
Total number of agreements (mean)(b)	2.4	2.5
Total number of agreements (median)(b)	1.0	1.0
Total monthly cost of these agreements (mean)(c)	3,024	1,093
Total monthly cost of these agreements (median)(c)	500	306
Reason for leasing rather than buying goods outright(a,d)		
To ease pressure on cash flow	61%	82%
Only want the asset(s) for a limited period	11%	1%
Didn't have any/enough security to obtain a loan to buy the asset	12%	5%
Due to other benefits such as maintenance and replacement of faulty assets	15%	12%
Other reasons	21%	4%
The largest agreement has been held for approximately(a)		
Less than 1 year	21%	26%
1-3 years	67%	55%
4-6 years	8%	14%
7 or more years	4%	2%
The agreement is being leased for(a)		
1-2 years	13%	8%
3-4 years	53%	35%
5 years	26%	33%
6 or more years	4%	11%
Entitled to share of the proceeds from the sale of the assets at the end of the contract	60%	38%
Unable to make repayments at least once in last 12 months	15%	4%

(a) Bases: Businesses reporting on leasing: Male majority led: n=445,298 (Unweighted: n=580); Female majority led: n=86,859 (Unweighted: n=85)

(b) Bases: Businesses reporting number of leasing agreements: Male majority led: n=421,037 (Unweighted: n=529); Female majority led: n=75,456 (Unweighted: n=75)

(c) Bases: Businesses reporting monthly cost of leasing agreements: Male majority led: n=397,851 (Unweighted: n=491); Female majority led: n=74,979 (Unweighted: n=66)

(d) Businesses could give more than one reason, hence the answers do not sum to 100%

In Table 6.2.6 we explore the servicing of the debt and the type and cost of borrowing. The upper part of the table examines the proportion of businesses with each type of finance that had amounts due that were not paid on time during the last twelve months. It should be remembered that each of these types of finance was used more commonly by male-led businesses.

We find that late payments on overdrafts are more common than for the other two forms of finance, but there is little evidence of a gender difference. On the other hand we find that late payments on loans /mortgages are more common in male-led businesses, as we have already reported for leasing and HP finance.

The proportions using fixed, as opposed to variable, interest rates for their overdrafts was broadly similar for male-led and female-led firms, but the interest rates for both types appear to be lower for female-led firms. However, as reported in Chapter 3, the gender difference in interest rates is not found when factors like firm size and sector are taken into account.

Male-led firms are less likely to have a fixed rate loan or mortgage than their female counterparts. We again find lower interest rates for female-led businesses.

Table 6.2.6: Repayments, fixed/variable interest rate by gender of leadership

Category	Male led	Female led	Unweighted base (Male)	Unweighted base (Female)
Unable to make repayments in last 12 months				
Overdraft(a)	29%	32%	819	131
Loan/mortgage(b)	15%	0%	414	80
Interest on overdraft				
% with fixed overdrafts	33%	36%	258	45
Average fixed rate	5.0%	3.2%	180	31
% with variable overdrafts	47%	49%	442	59
Average margin above base rate	2.4%	2.2%	372	43
Don't know whether fixed or variable	20%	15%	119	27
Interest on loan/mortgage				
% with fixed loans/mortgages	39%	48%	154	36
Average fixed rate	5.8%	5.5%	114	28
% with variable loans/mortgages	55%	45%	225	38
Average margin above base rate	2.9%	2.2%	182	29
Don't know whether fixed or variable	7%	7%	45	7

(a) Base: All businesses using an overdraft: Male majority led: n=1,153,932 (Unweighted: n=819); Female majority led: n=205,714 (Unweighted: n=131)

(b) Base: All businesses with a loan: Male majority led: n=469,259 (Unweighted: n=414); Female majority led: n=83,194 (Unweighted: n=80)

The use of credit cards by male-led and female-led SMEs is summarised in Table 6.2.7. It shows very similar frequency of use of credit cards in male-led and female-led firms and this is supported by the unimportance of gender in explaining the use of credit cards in the multivariate analysis in Chapter 3. The monthly spend on credit cards is lower on average for female-led SMEs, but this could be a sectoral effect.

Table 6.2.7: Use of credit cards by gender of leadership

Category	Male led	Female led
Use of credit cards(a)		
Use personal	37%	35%
Use business	71%	73%
Use both business and personal	8%	8%
Average monthly spend on personal credit card(b)		
Mean(£)	728	488
Median(£)	200	125
Average monthly spend on business credit card(c)		
Mean(£)	1,175	746
Median(£)	500	300

(a) Bases: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722); All female majority led businesses: n=729,912 (Unweighted: n=337)

(b) Bases: Use of personal credit cards: All male majority led businesses reporting on payment: n=355,254 (Unweighted: n=140); All female majority led businesses reporting on payment: n=86,533 (Unweighted: n=38)

(c) Bases: Use of business credit cards: All male majority led businesses reporting on payment: n=707,201 (Unweighted: n=658); All female majority led businesses reporting on payment: n=151,401 (Unweighted: n=83)

6.3 Raising new finance

This section examines attempts to raise new finance and its success and the reasons why firms were rejected, or discouraged from applying. The findings comparing male-led and female-led SMEs are shown in Table 6.3.1 below.

Table 6.3.1: New finance sought in the last three years and reasons for not seeking finance by gender of leadership

Category	Male led	Female led
Sought finance(a)	35%	33%
Discouraged from seeking finance(a)	4%	8%
Did not seek finance as it was not needed(b)	63%	60%
Partially rejected when applying(c)	18%	12%
Rejected outright when applying(c)	11%	17%
Partially rejected and/or rejected outright when applying(c)	29%	29%

(a) Bases: All male majority led businesses: n=3,077,004 (Unweighted: n=1,722); All female majority led businesses: n=729,912 (Unweighted: n=337)

(b) Bases: All businesses not seeking finance: Male majority led: n=1,985,746 (Unweighted: n=882); Female majority led: n=487,613 (Unweighted: n=192)

(c) Bases: All businesses seeking finance: Male majority led: n=1,091,258 (Unweighted: n=840); Female majority led: n=242,300 (Unweighted: n=145)

A lower proportion of female-led firms sought new funds in the last three years and, in addition, a lower proportion said that they did not need it. A somewhat higher, but low, proportion of female business leaders were discouraged from seeking finance (8% compared with 4% for male-led businesses).

In terms of the success rates for those seeking finance, there was no gender difference in partial and outright rejection taken together, but female-led firms were more likely to be rejected outright.

The types of finance sought by the firms are shown in Table 6.3.2 separately for male-led and female-led firms. These largely confirm our earlier findings that they use overdrafts about equally and male-led firms are more likely to raise funds from term loans and mortgages and through leasing/HP. A higher proportion of female-led firms sought new finance through the use of credit cards.

However, it should be remembered that when the size, sector and other business characteristics are taken into account, the gender variable was not found to be significant in explaining the type of finance sought (see Table 4.6.2 in Chapter 4).

Table 6.3.2: Types of finance sought by gender of leadership (Businesses seeking finance only)

Category	Male led(a)	Female led(b)
Overdraft	54%	58%
Term loan/mortgage	40%	33%
Leasing or hire purchase	34%	23%
Factoring/invoice discounting finance	3%	2%
Credit cards	35%	42%
Equity finance/issuing shares	2%	1%

(a) Base: All male majority led businesses seeking finance: n=1,091,258 (Unweighted: n=840)

(b) Base: All female majority led businesses seeking finance: n=242,299 (Unweighted: n=145)

Another assessment of new finance differences is to examine how much finance was sought on average, and what percentage was obtained, from all sources of finance. The findings are shown in Table 6.3.3. It shows that male-led firms sought a greater level of new finance over the last three years – about four times greater than that sought by female-led firms. We find virtually no difference in the percentage obtained. Both these findings are supported by our multivariate analysis.

Table 6.3.3: Amount of finance sought and % obtained by gender of leadership

Category	Male led	Female led
Average amount sought(£)(a)		
Mean	232,572	47,142
Median	17,000	5,000
Average % obtained(b)		
Mean	78%	84%

(a) Bases: All businesses seeking finance and reporting amount sought: Male majority led: n=775,339 (Unweighted: n=586); Female majority led: n=140,777 (Unweighted: n=93)

(b) Bases: All businesses seeking finance and reporting % obtained: Male majority led: n=1,005,682 (Unweighted: n=770); Female majority led: n=210,186 (Unweighted: n=125)

We next examine rejections and discouragements from applying for various forms of finance split by the gender of the business leader. The findings presented in Table 6.3.4 confirm our earlier result of little difference in rejection rates between the genders.

The table examines rejection and reluctance for various types of finance. In general, and particularly for loans and mortgages and leasing and HP, it shows a greater reluctance to seek each form of finance on the part of female-led firms, but a lower rejection rate in each case.

Table 6.3.4: Rejections and discouragement by type of finance and gender of leadership

Type of finance		Partial or outright rejection	Reluctant(a)
Any form of finance(b)			
	Male led	29%	37%
	Female led	29%	40%
Overdraft(c)			
	Male led	26%	50%
	Female led	22%	53%
Term loan(d)			
	Male led	15%	59%
	Female led	9%	72%
Leasing/HP(e)			
	Male led	14%	65%
	Female led	4%	76%

(a) Businesses are defined as reluctant if they did not seek any type of finance and they stated that they did not seek finance because they thought they would be turned down, or they thought it would be too expensive, or time consuming, or that they preferred not to borrow, or wished to avoid giving up control of their business, or that they did not know how to go about getting the type of finance.

(b) Base: Businesses seeking any form of finance: Male led: n=1,091,258 (Unweighted: n=840); Female led: n=242,300 (Unweighted: n=145); seeking and reluctant: Male led: n=1,985,746 (Unweighted: n=882); Female led: n=487,613 (Unweighted: n=192)

(c) Base: Businesses seeking an overdraft: Male led: n=593,831 (Unweighted: n=438); Female led: n=140,061 (Unweighted: n=79); seeking and reluctant: Male led: n=1,190,508 (Unweighted: n=669); Female led: n=299,925 (Unweighted: n=146)

(d) Base: Businesses seeking a loan: Male led: n=437,841 (Unweighted: n=290); Female led: n=80,478 (Unweighted: n=57); seeking and reluctant: Male led: n=1,076,393 (Unweighted: n=576); Female led: n=291,897 (Unweighted: n=130)

(e) Base: Businesses seeking leasing/HP: Male led: n=368,468 (Unweighted: n=454); Female led: n=56,246 (Unweighted: n=62); seeking and reluctant: Male led: n=1,049,353 (Unweighted: n=693); Female led: n=236,922 (Unweighted: n=122)

We can explore this further by asking why the firms did not apply for the various types of finance. This was asked for each type of finance of all firms that did not apply for that type and the findings are shown in Table 6.3.5, separately for male-led and female-led firms.

For each type of finance the pattern of answers given is very similar for the two genders of business leadership. In the case of overdrafts, the principal reason given is not needing this type of finance (about 70%), next comes that they are happy with the overdraft they have (about 30%) and then comes the statement that they prefer

not to borrow (about 20%). The fear of rejection and the cost are given as answers by very low proportions of the respondents.

The answers for leasing are again very similar for male-led and female-led firms. Again, the principal reason given is that they do not need this type of finance (about 80%), next comes the statement that they prefer not to borrow (about 20%). The fear of rejection is still low, but the cost is given as an answer in higher proportions here (about 10% for male and female). The responses to the questions about loans and mortgages come somewhere in between the answers for overdrafts and those for leasing.

Table 6.3.5: Reasons for not applying for finance by type of finance and gender of leadership

Category	Overdraft(a)	Term loan/ mortgage(b)	Leasing/HP(c)
Female led			
Happy with the product we have	26%	11%	7%
Do not need this type of finance	74%	80%	81%
Thought it would be too expensive	2%	7%	10%
Thought I would be turned down	6%	5%	4%
Prefer not to borrow	22%	27%	18%
Can get finance from family and friends if needed	8%	8%	7%
Other	1%	1%	0%
Male led			
Happy with the product we have	28%	15%	11%
Do not need this type of finance	68%	81%	79%
Thought it would be too expensive	4%	7%	10%
Thought I would be turned down	3%	3%	3%
Prefer not to borrow	20%	21%	20%
Can get finance from family and friends if needed	8%	7%	6%
Other	1%	0%	1%

(a) Bases: Businesses that did not apply for an overdraft: Female majority led: n=589,851 (Unweighted: n=258); Male majority led: n=2,483,172 (Unweighted: n=1,284)

(b) Bases: Businesses that did not apply for a loan or a mortgage: Female majority led: n=649,434 (Unweighted: n=280); Male majority led: n=2,639,162 (Unweighted: n=1,432)

(c) Bases: Businesses that did not apply for leasing/HP: Female majority led: n=673,666 (Unweighted: n=275); Male majority led: n=2,708,536 (Unweighted: n=1,268)

We showed above that equity was little used and little sought and so we examine in Table 6.3.6 the reasons for this. About one-third of both female-led and male-led firms said that they did not want to seek equity finance for fear of diluting their control. When we observe the other reasons it appears that male-led businesses are more likely to choose not to go for this type of finance for positive reasons like lack of need and happy with the product they have. In the case of female-led business other reasons were stronger. For example, the decision to not seek equity finance based on not knowing how to go about it was given by 17% of female-led firms, but only by 4% of male-led firms.

Table 6.3.6: Reasons for not applying for equity finance by gender of leadership

Category	Male led(a)	Female led(b)
Don't want to give up control of business	34%	31%
Do not need it as have finance from other sources	33%	25%
Do not need this type of finance	34%	23%
Don't know how to go about it	4%	17%
Happy with the product we have	13%	12%
Thought it would be time consuming	3%	2%
Thought it would be too expensive	3%	1%
Thought I would be turned down	1%	0%
Other	3%	10%

(a) Base: Male majority led companies that did not apply for new equity finance: n=934,214 (Unweighted: n=942);

(b) Base: Female majority led companies that did not apply for new equity finance: n=209,992 (Unweighted: n=129)

6.4 Multivariate Analysis

In earlier parts of this chapter we recognised that some differences between female-led and male-led businesses might be a consequence of the sectors in which they operate rather than gender differences. We use multivariate probit regression analysis to address this issue. The analysis shown in Table 6.4.1 uses a variety of business characteristics to distinguish between male-led and female-led SMEs (those with joint leadership are excluded).

The first two columns examine the gender differences between firms that sought new finance in the previous three years. It is immediately apparent that there are significant differences in the proportion of businesses that are female-led across the sectors. Looking at the first column of the table the comparison sector is Manufacturing and so the only sector with a lower proportion of female-led SMEs is Construction, but this difference is not significant. On the other hand, there are significantly greater proportions of female-led businesses in each of the other sectors, including Agriculture, than is found in Manufacturing.

The second column has a broader sample because the profit margin is dropped from the analysis and this had many missing values. We see the same sectoral pattern as for the first column and the signs of the coefficients remain the same, but it is Construction that is now significantly different.

These striking sectoral differences must be taken into account when analysing any other finding in relation to the gender difference. When this allowance is made, the first two columns of Table 6.4.1 show no size difference between male-led and female-led firms that were seeking finance; in other words our earlier findings of a smaller average size of the latter was associated with the sector difference.

Table 6.4.1 The characteristics of female-led firms

Probit regression analysis: dependent variable is 1 for female-led and 0 for male-led business				
	Finance seekers		All businesses	
Number of employees(a)				
1-9	-0.17	-0.09	-0.20	-0.25***
10-49	0.24	0.12	-0.20	-0.26***
50-249	0.03	-0.10	-0.39**	-0.42***
Industry(a)				
Construction	-0.16	-0.55*	-0.63***	-0.61***
Distribution	0.86**	0.23	0.17	0.08
Business services	0.72**	0.11	0.11	0.10
Other services	0.72**	0.21	0.35**	0.41***
Agriculture	0.78*	0.13	0.19	0.17
Region(a)				
London	-0.23	-0.10	-0.28	-0.15
South East	0.23	0.08	0.16	0.07
East	0.09	0.36	0.16	0.18
South West	0.18	0.12	0.09	0.02
East Midlands	-0.88**	-0.58	-0.36	-0.35*
Yorkshire and Humber	0.15	0.09	0.06	-0.06
North West	-0.64	-0.45	-0.19	-0.01
North East	0.41	0.26	0.41*	0.23
Wales	-0.59	-0.15	-0.36	-0.22
Scotland	0.08	0.17	-0.07	0.03
N Ireland	1.04**	0.57	0.49**	0.25
Deprived area	0.26	0.12	0.10	-0.03
Business factors				
Profit margin	-0.00		0.00	
Free banking	0.48**	0.32*	0.03	
New firm	0.26	0.16	0.15	0.25**
Old firm	-0.15	-0.09	-0.14	-0.15*
No A' level	-0.54**	-0.38**	-0.20	-0.12
Owner has degree	-0.13	0.11	-0.07	0.06
Finance qualified	-0.11	-0.03	-0.17	-0.16**
Business improver	-0.37**	-0.41***	0.01	-0.07
Web for trading	0.20	0.08	0.03	-0.03
Ln Amount sought	-0.16***	-0.10***		
Sought finance			-0.05	-0.03
Observations	512	657	1,240	2,122
Chi ²	82.1	69.3	78.6	144.2
Pseudo R ²	0.21	0.13	0.10	0.09

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

We noted earlier in the chapter that there was a wide variation across the regions in the proportion of female-led SMEs. We noted this proportion was particularly low in the East Midlands and high in the South East. Whilst the signs of the coefficients in the first two columns are as we would expect, only the East Midlands is significantly different from our comparison case, the West Midlands, when other factors are taken into account. On the other hand, we do find evidence that the female-led proportion is significantly higher in Northern Ireland amongst SMEs seeking finance.

The first two columns of Table 6.4.1 also show that a significantly lower proportion of female business leaders have low educational qualifications, even allowing for size and sector. On the other hand, female-led firms are less likely to be business improvers.

Finally in relation to the finance seekers, the first two columns show very clearly that female-led businesses are more likely to benefit from free banking, perhaps because they were more willing to switch between banks. Female-led businesses also seek significantly lower amounts of finance. We also find in running other versions of this model, no difference in the percentage of funds obtained between the genders.

The final two columns of Table 6.4.1 consider all SMEs, whether, or not they sought external finance within the last three years. They have many more observations than the first two columns through the inclusion of those that did not seek finance and because a variable with several missing values, namely whether the firm has free banking, has been dropped from the analysis.

The sectoral distribution remains much the same as before and we find a significantly lower proportion of female-led firms in Construction and a significantly higher proportion in Other services. For this larger sample we find evidence that female-led firms are significantly smaller than male-led firms, contrary to our findings for finance seekers alone.

The regional pattern for the whole sample of female-led and male-led businesses shows a similar pattern to that found for those seeking finance. There is some evidence that the East Midlands has a low proportion, and the North East and Northern Ireland a higher proportion, of female-led SMEs when other factors are taken into account.

We find no evidence within this wider sample for a gender effect on either the decision to seek finance, or for the intention to grow the business (the latter result is not shown in the table). The lower proportion of female-led SMEs with low educational qualifications is still found, but with a lower significance level than amongst finance seekers. There is some evidence that new firms, formed within the last two years, have a higher proportion of female leaders and that female-led firms are less likely to have a financially qualified person managing their finances.

Executive Summary

- *The analysis in this chapter compares women-led businesses (17%) with those led by men (73%) to discover whether there are differences between the business leaders, their businesses and their experience of financing their businesses.*
- *Female business leaders are somewhat more likely to be running smaller businesses. Female-led businesses are also younger with one-third established in the last two years compared with 15% for male-led firms.*
- *There is little difference between the genders in their perceptions of business problems.*
- *We find no differences between male and female-led businesses in their use of a personal, or business account, for their business activities. However, female-led businesses show a shorter length of relationship with their main bank and with other finance providers than male-led firms and are more likely to have changed their main bank in the last year.*
- *Using multivariate probit regression analysis to examine differences between female-led and male-led businesses, we find:*
 - *significant differences in the proportion of businesses that are female-led across the sectors. The comparison sector is Manufacturing and so the only sector with a lower proportion of female-led SMEs is Construction, but there are greater proportions of female-led businesses in each of the other sectors, including Agriculture;*
 - *no size difference between male-led and female-led firms that were seeking finance;*
 - *only the East Midlands has a significantly lower proportion of female-led businesses when other factors are taken into account. On the other hand, we do find evidence that the female-led proportion is significantly higher in Northern Ireland amongst SMEs seeking finance;*
 - *finally in relation to the finance seekers, female-led businesses are more likely to benefit from free banking and to seek significantly lower amounts of finance;*
 - *we find no difference in the percentage of funds obtained between the genders;*
 - *considering all SMEs, whether, or not they sought external finance within the last three years we find evidence that female-led firms are significantly smaller than male-led firms, contrary to our findings for finance seekers alone;*
 - *no evidence within this wider sample for a gender effect on either the decision to seek finance, or for the intention to grow the business;*
 - *there is some evidence that new firms, formed within the last two years, have a higher proportion of female leaders and that female-led firms are less likely to have a financially qualified person managing their finances.*

7 Start-up Businesses

This chapter makes a comparison between business start-up firms (defined as those up to two years old) and those that have been in existence for ten years, or more. Firms between two and ten years old are excluded from this analysis. The chapter examines differences between the new and old in terms of their business leadership, their businesses and their experience of financing their businesses.

7.1 Business Characteristics

The start-up firms, which had been trading for less than two years, were asked what was the principal reason for starting their business. They were given a prompt with a range of options only if they could not answer the question without prompting. Their answers are shown in Table 7.1.1.

Looking at the first two columns we find that about two-fifths wanted to make money (33%), or to follow a good business idea (7%) – we term these business-oriented motivations.

In the next two columns we see that slightly less than two-fifths wanted to be their own boss (27%), or to fulfil a life's ambition to run their own business (10%) – we term these life style motivations.

In the next two columns we have another group that were either frustrated with a 9 to 5 job (5%), or had no other employment available (5%) – we term these employment motivations.

The first group of business-oriented motivations was lowest for zero-employee firms and for Agriculture and greatest in Wholesaling and Retailing. The second set of life style motivations was greatest for zero-employee businesses and for Agriculture. The third set of motivations, relating to employment motivations was also larger for smaller firms and for those in Construction.

Partnerships give high replies for the business motives of making money and for fulfilling a life's ambition relative to other legal forms; and they score employment motivations very low. Companies, and to a lesser extent sole traders, are more likely to answer that they want to be their own boss.

Female leaders of start-up businesses are much more likely to say that they were seeking to fulfil a lifetime's ambition and appear to be more frustrated with their 9 to 5 job (8% compared with 4%). Both female-led and female owned start-ups are much less likely than male-led businesses to quote either of the business oriented motivations. Perhaps surprisingly, the business motivations are higher, and the employment motivations lower in deprived areas compared with other areas.

Table 7.1.1: Principal reason for starting business (Firms up to 2 yrs old)

	To make money	Had good business idea	Fulfil life's ambition	To be own boss	Frustrated with 9-5 job	Lack of other jobs	Other
All businesses	33%	7%	10%	27%	5%	5%	13%
No of employees							
0	31%	6%	11%	28%	5%	6%	12%
1-9	46%	8%	4%	18%	3%	3%	18%
10-49	26%	28%	3%	18%	4%	1%	21%
50-249	54%	0%	0%	0%	0%	0%	46%
Turnover (a)							
Less than £50,000	27%	8%	8%	30%	4%	9%	14%
£50,000-£499,999	37%	6%	6%	22%	10%	3%	17%
£500,000-999,999	48%	10%	1%	23%	5%	0%	13%
£1,000,000+	87%	2%	2%	4%	0%	1%	4%
Industry							
Agriculture	21%	0%	19%	53%	0%	0%	6%
Manufacturing	33%	2%	9%	23%	1%	6%	25%
Construction	32%	0%	0%	30%	7%	10%	20%
Wholesale/retail	37%	11%	6%	25%	2%	6%	14%
Service sectors	32%	7%	13%	27%	6%	5%	11%
Legal status							
Sole trader	32%	6%	11%	26%	5%	6%	14%
Partnership	37%	16%	33%	6%	0%	0%	8%
Limited company	34%	8%	3%	34%	7%	3%	11%
Deprivation (15%)							
Deprived area	46%	13%	4%	30%	2%	2%	2%
Other	30%	5%	11%	26%	6%	6%	15%
Female leadership							
<50%	36%	8%	5%	29%	4%	6%	11%
=50%	21%	20%	31%	10%	0%	0%	19%
>50%	27%	3%	17%	25%	8%	5%	16%
Female ownership							
<50%	35%	8%	7%	28%	4%	6%	11%
=50%	30%	29%	5%	13%	0%	0%	22%
>50%	27%	2%	18%	23%	8%	5%	17%

Base: All businesses under 2 yrs old: n=701,965 (Unweighted: n=269)

(a) All businesses under 2 yrs old reporting turnover: n=488,175(Unweighted: n=186)

The distribution of start-up businesses across size, sectoral, regional and legal form is contrasted with older businesses in Table 7.1.2. Start-up businesses are, unsurprisingly, likely to be smaller, and are more likely to be found in the Services sectors and less likely to be located in Agriculture or Construction. Deprived areas show a lower proportion of start-ups.

There is a higher proportion of start-ups amongst sole proprietorships than other business forms, possibly suggesting that other forms may first start their business life as sole proprietors, or that the rate of failure of sole proprietors is higher than other legal forms. Partnerships exhibit the lowest proportion of start-ups.

Table 7.1.2: Business characteristics by age of firm

Category	Start-ups (<2yrs old)	10yrs+
All businesses	17%	47%
Number of employees		
0	88%	66%
1-9	12%	28%
10-49	1%	5%
50-249	0%	1%
Turnover(a)		
Less than £50,000	66%	39%
£50,000-£499,999	32%	41%
£500,000-£999,999	1%	7%
£1,000,000+	1%	13%
Industry		
Agriculture	1%	6%
Manufacturing	6%	8%
Construction	11%	25%
Wholesale/retail	13%	14%
Service sectors	70%	47%
Legal status		
Sole trader	76%	57%
Partnership	4%	10%
Limited company	20%	33%
Deprivation (15%)		
Deprived area	16%	20%
Other	84%	80%

Bases: Start-ups: n=723,578 (Unweighted: n=277); Businesses 10yrs+: n=1,971,476 (Unweighted: n=1,477)

(a) Businesses reporting firm age and turnover: n=3,397,994 (Unweighted: n=2,005)

Table 7.1.3 shows the ownership and leadership characteristics of start-ups in comparison with SMEs that are ten years, or older. It shows clearly that the business owners of start-up SMEs are likely to be much younger than more established businesses. For example when we look at business leaders of under 39 years old, half of start-ups are found in this age range compared with only 10% of firms that are ten years or older. It is hardly surprising therefore that their business experience is also considerably less.

It also follows from the fact that start-up business owners are younger that we would expect their academic qualifications to be higher than their older counterparts. This is indeed the case with 44% of start-up leaders with a university degree compared with only 19% for the older businesses.

There is a higher proportion of female leaders amongst the start-up businesses and a lower proportion amongst older businesses; and this supports our findings in Section 6.4 of Chapter 6.

Table 7.1.3: Principal owner characteristics by age of firm

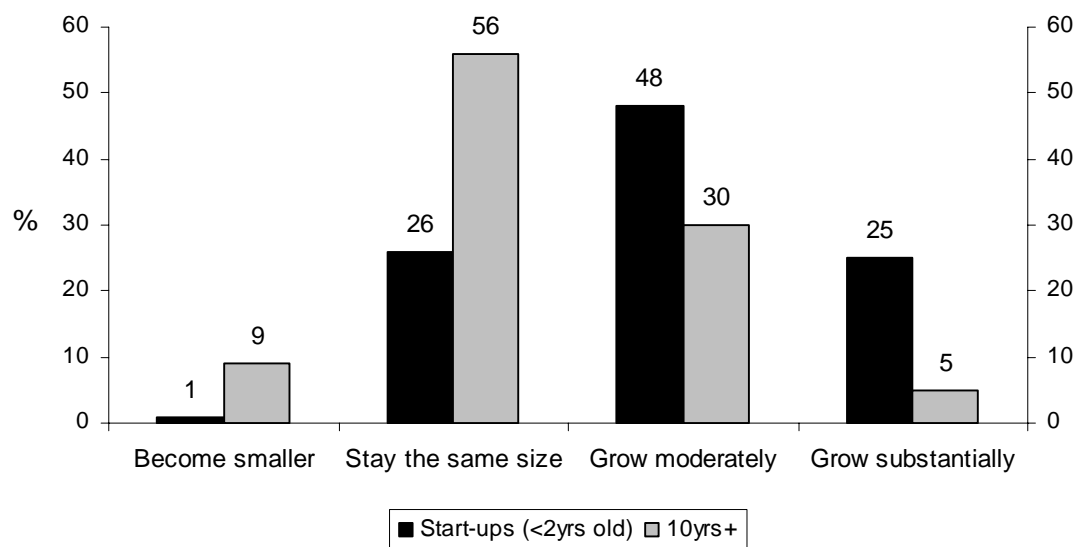
Category	Start-ups (<2yrs old)	10yrs+
Age		
< 21 years	2%	0%
21-39 years	48%	10%
40-55	42%	40%
55+	8%	50%
Highest academic qualification		
None/GCSE	15%	37%
Other	42%	44%
University degree	44%	19%
Business experience		
< 1 year	26%	1%
1-3 years	37%	1%
4-9 years	19%	4%
10+ years	18%	94%
Female leadership		
<50%	63%	77%
=50%	4%	10%
>50%	33%	13%

Bases: Start-ups: n=723,578 (Unweighted: n=277);

Businesses 10yrs +: n=1,971,476 (Unweighted: n=1,477)

Chart 7.1.1 compares the growth ambitions of SME start-ups with older SMEs. It is clear that the start-ups are more growth-oriented with 25% of them intending to grow substantially compared with only 5% of older SMEs.

Chart 7.1.1: Growth objectives over the next three years by business age



Bases: Start-ups: n=723,578 (Unweighted: n=277); Businesses 10yrs+: n=1,971,476 (Unweighted: n=1,477)

Whether this greater dynamism is reflected in other aspects of the business is explored in Table 7.1.4 that examines their financial qualifications, business planning, business techniques, exporting and innovation.

The picture that emerges is that the start-ups are more innovative overall, but have yet to develop more formal structures. This relative immaturity no doubt explains the lower proportion of start-ups using HR planning (3% compared with 9%) and PRP (2% compared with 7%) than older SMEs.

On the other hand, despite being only recently formed 8% of them export compared with 9% for older SMEs. In addition, there is little difference in the proportions with a financial manager with financial qualifications.

In terms of the other measures, the start-ups are ahead. 46% of them have a website for trading compared with only 28% for older SMEs. Also, 35% of them have a written business plan compared with 24% of older SMEs. This latter finding may in part be due to the need for a business plan at the foundation of a business.

The direct measures of innovation over the previous three years (less in the case of start-ups) also show the start-ups well ahead with 17% of them having developed a new product, or service, and 40% with a significant improvement to an aspect of the business, compared with 10% and 30% respectively for businesses of ten or more years standing.

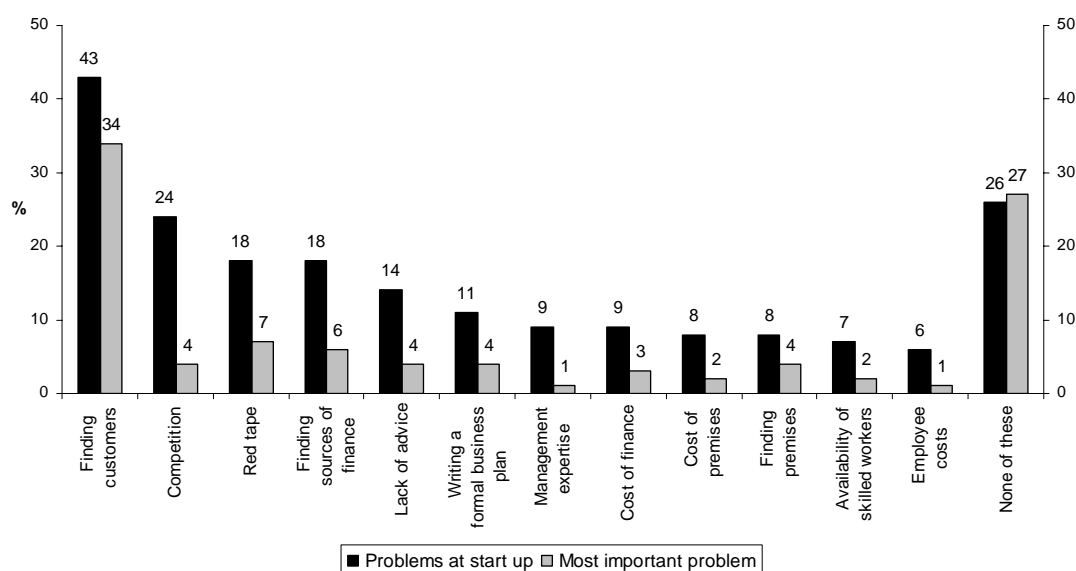
Table 7.1.4: Business strategies by age of firm

Category	Start-ups (<2 yrs old)	10 yrs+
Formally qualified or trained financial manager	16%	14%
Written business plan	35%	24%
Written HR plan(a)	3%	9%
Performance related pay(a)	2%	7%
Use total quality management	19%	15%
Web site for trading	46%	28%
Export goods or services	8%	9%
Developed new product or service in the past 3 years	17%	10%
Significantly improved a business aspect in the past 3 years	40%	30%

Bases: Start-ups: n=723,578 (Unweighted: n=277);
 Businesses 10yrs+: n=1,971,477 (Unweighted: n=1,477)
 (a) Excluding firms with no employees

Chart 7.1.2 shows the problems the businesses faced at start-up. We can see that about one-quarter of new firms indicated that they had no problems. For the others it is market-oriented issues, particularly finding customers, that were seen as much more important than financial ones.

Chart 7.1.2 Problems faced at start-up

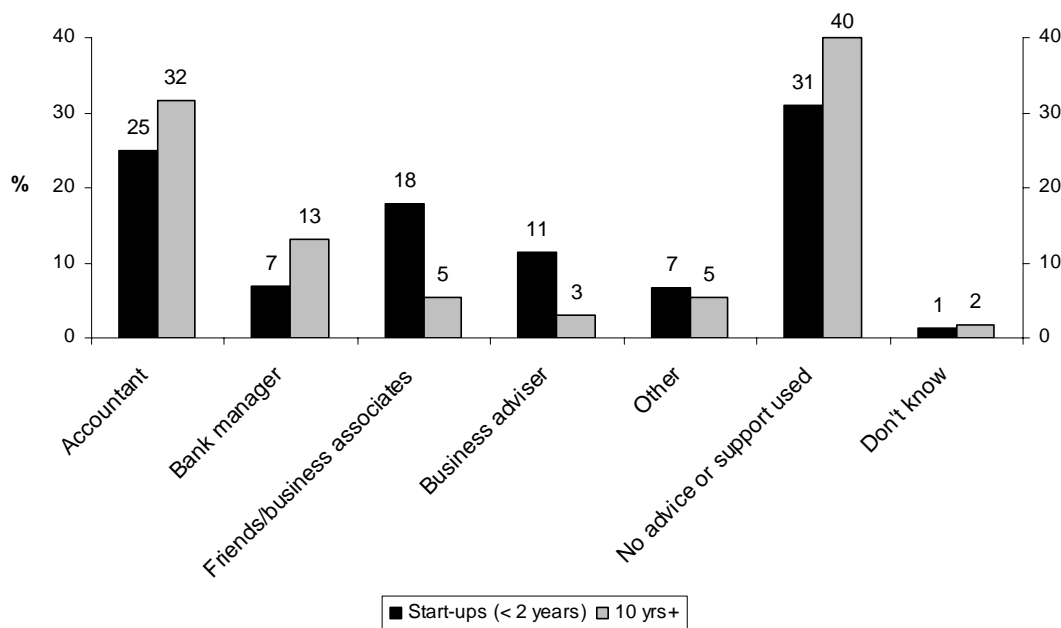


Bases: Start-ups: n=722,535 (Unweighted: n=275)

The sources of advice sought by start-up businesses are shown in Chart 7.1.3 in comparison with the answers given by older firms. Start-up firms are less likely to use a bank manager, or an accountant, and more likely to use other sources of advice.

Accountants remain the largest source of advice even for start-up SMEs. But perhaps the most interesting finding is that about one in three of new SMEs have not sought any advice, or support.

Chart 7.1.3: Sources of financial advice by business age



Bases: Start-ups: n=723,576 (Unweighted: n=277); Businesses 10yrs+: n=1,971,478 (Unweighted: n=1,477)

We now turn to examine whether there are differences in the financing of start-up businesses.

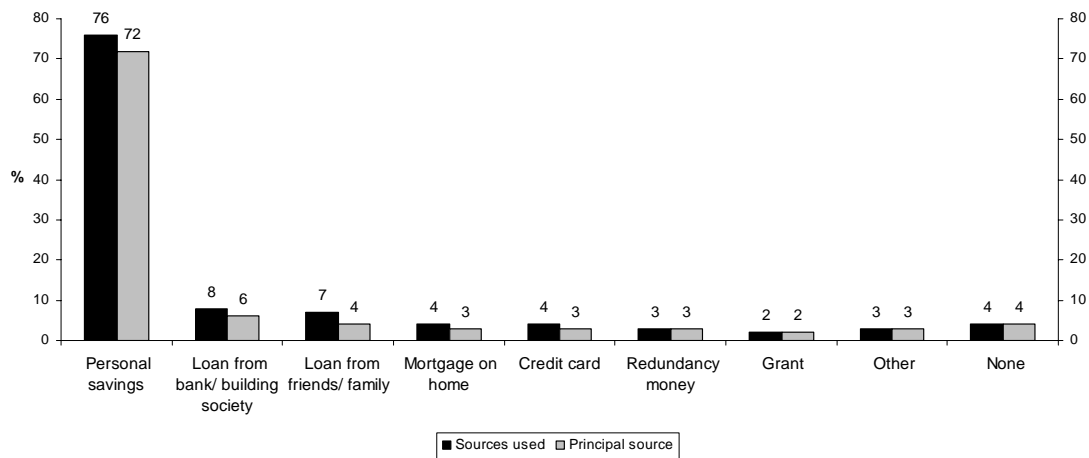
7.2 Business Finance

The start-up firms were asked how much money was needed to set up their business. The weighted mean was £31,000 (calculated from the answers given in value ranges, rather than exact amounts), but the median was £7,500.

Chart 7.2.1 shows the sources of finance used to set up the business and the principal source of support. The pattern is similar for any sources used and for the principal source.

It is clear that personal savings dominate with bank loans and loans from friends and families next, but a long way behind.

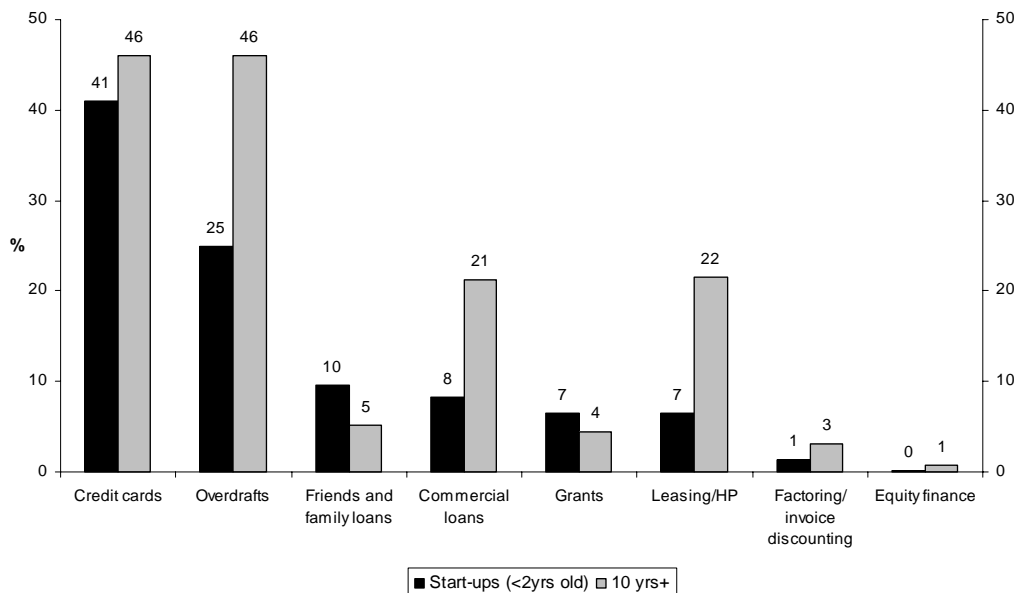
Chart 7.2.1 Sources and principal source of finance used to establish the business



Bases: Start-ups: n=722,535 (Unweighted: n=275)

Chart 7.2.2 shows the use of different forms of finance by start-up and older businesses. It shows that start-up businesses use fewer types of finance on average compared with older firms. It also shows some differences in the types of finance they use. They are less likely to use leasing and hire purchase, term loans and mortgages and asset-based finance like invoice discounting.

Chart 7.2.2: Use of external financial products



Bases: Start-ups: n=723,578 (Unweighted: n=277); Businesses 10yrs+: n=1,971,476 (Unweighted: n=1,477)

They are also less likely to use overdraft facilities (25% compared with 46% of older firms). Their use of credit cards is lower than that of older firms (41% compared with 46%). On the other hand, they are more likely to use grant finance and family and friends. These findings are supported by the analysis reported above in Section 3.8 of Chapter 3.

Table 7.2.1 examines the use of current accounts. It shows that start-up SMEs are more likely to use personal accounts for their business banking. If they do have business accounts, they are less likely to be paying bank charges and those that are paying do so at a lower level than older businesses, at least when measured by the mean. They are also more likely to have changed their bank in the last year.

Table 7.2.1: Use of and charges for current accounts by age of firm

	Start-ups (<2yrs old)	10 yrs+
Use personal or business account?(a)		
Personal	25%	11%
Business	75%	89%
Don't Know	0%	1%
How do you pay for your business banking (business accounts only)(b)		
I don't pay at all, have free banking	54%	22%
I pay charges but receive interest on credit balances	33%	62%
I don't receive credit interest but get some transactions free or at a discounted rate	7%	9%
Other	2%	6%
Don't know	3%	1%
Average monthly bank charge (business accounts only)(c)		
Mean(£)	57	152
Median(£)	50	50
Whether changed main business bank in last year (d)		
Yes	7%	2%
Average length of relationship (years)		
With main bank(e)	3	18
With other providers in addition to main bank(f)	3	15

Bases: (a) Start-ups: n=584,439 (Unweighted: n=236); Businesses 10 yrs +: n=1,687,350 (Unweighted: n=1,321)

(b) Firms with business accounts: Start-ups: n=439,839 (Unweighted: n =197); Businesses 10 yrs +: n=1,493,738 (Unweighted: n=554)

(c) Firms with business accounts reporting charges: Start-ups: n=157,770(Unweighted: n=77);

Businesses 10 yrs +: n=983,805 (Unweighted: n=906)

(d) Start-ups: n=723,578 (Unweighted: n=277); Businesses 10 yrs +: n=1,971,476 (Unweighted: n=1,477)

(e) Start-ups: n=723,508 (Unweighted: n=276); Businesses 10 yrs +: n=1,960,575 (Unweighted: n=1,462)

(f) Start-ups: n=134,360 (Unweighted: n=73); Businesses 10 yrs +: n=628,465 (Unweighted: n=655)

The deposit accounts and overdraft arrangements for start-up businesses are shown in Table 7.2.2 in comparison with older firms. As we would expect, the average deposits held by start-ups is substantially less than that of older SMEs.

Since only a quarter of start-ups have overdraft arrangements in place, the numbers become quite small here. Despite this, the picture is fairly clear. Start-up SMEs have lower overdraft limits, were less likely to have provided security, and are less likely to have paid an arrangement fee.

Start-ups are more likely to have a fixed overdraft rate and to not know whether their rate is fixed or variable. There is no difference between new and old SMEs in the proportion overdrawn in the previous year.

Table 7.2.2: Use of deposit accounts and overdrafts by age of firm

	Start-ups (<2yrs old)	10 yrs+
Deposits(a)		
Average amount held(£)	15,133	154,645
Average size of overdraft limit(b)		
Mean(£)	16,706	43,689
Median(£)	1,000	10,000
Was any security required to obtain this overdraft?(c)		
Yes	6%	25%
No	94%	75%
Did your business pay fees or charges to arrange this facility?(c)		
Yes	23%	63%
No	76%	33%
Don't Know	1%	4%
Interest on overdraft(c,d)		
% with fixed rate	42%	34%
% with variable rate	29%	50%
Don't know whether fixed or variable	20%	4%
Overdrawn in last 12 months	24%	26%

Bases: (a) All start-ups reporting amount on deposit: n=159,320 (Unweighted: n=67);
All businesses 10 yrs + reporting amount on deposit: n=674,527 (Unweighted: n=595)
(b) All start-ups reporting overdraft limit: n=134,938 (Unweighted: n=55);
All businesses 10 yrs+ reporting overdraft limit: n=446,537 (Unweighted: n=399)
(c) All start-ups with overdraft reporting rate: n=169,320 (Unweighted: n=79);
All businesses 10 yrs+ with overdraft reporting rate: n=772,234 (Unweighted: n=738)
(d) Note that the average interest rates are not shown here as the bases were below 50 in the start-up cells

Table 7.2.3 reports on the use of leasing and HP finance by start-ups. It compares those start-ups that use this form of finance with older businesses that also use it.

It shows that start-ups using this form of finance are more likely to be using leasing rather than HP finance. It shows, unsurprisingly, that they have fewer such agreements with a lower monthly cost. The length of the agreement is shorter for start-ups and they are less likely to share in the proceeds from the sale of the assets at the end of the agreement.

Table 7.2.3: Leasing and HP by age of firm

Category	Start ups (<2 yrs old)	10 yrs+
Types used(a)		
Leasing only	70%	38%
Hire purchase only	11%	35%
Both leasing and hire purchase	16%	23%
Leasing/HP agreements		
Total number of agreements (mean)(b)	1.5	2.6
Total number of agreements (median)(b)	1.0	1.0
Total monthly cost of these agreements (mean)(c)	1,540	3,279
Total monthly cost of these agreements (median)(c)	1,000	500
Reason for leasing rather than buying goods outright(a,d)		
To ease pressure on cash flow	85%	63%
Only want the asset(s) for a limited period	5%	12%
Didn't have any/enough security to obtain a loan to buy the asset	18%	11%
Due to other benefits such as maintenance and replacement of faulty assets	7%	15%
Other reasons	5%	24%
The largest agreement has been held for approximately(a)		
Less than 1 year	62%	16%
1-3 years	29%	67%
4-6 years	4%	11%
7 or more years	2%	4%
The agreement is being leased for(a)		
1-2 years	11%	11%
3-4 years	55%	49%
5 years	17%	30%
6 or more years	14%	4%
Entitled to share of the proceeds from the sale of the assets at the end of the contract	36%	51%
Unable to make repayments at least once in last 12 months	8%	7%

(a) Bases: Start-ups reporting on leasing/HP: n=37,209 (Unweighted: n=42); Businesses 10 yrs+ reporting on leasing/HP: n=336,060 (Unweighted: n=549)

(b) Bases: Start-ups reporting number of leasing/HP agreements: n=39,219 (Unweighted: n=39); Businesses 10yrs+ reporting number of leasing/HP agreements: n=319,153 (Unweighted: n=498)

(c) Bases: Start ups reporting monthly cost of leasing/HP agreements: n=36,994 (Unweighted: n=39); Businesses 10 yrs+: n=307,019 (Unweighted: n=457)

(d) Businesses could give more than one reason, hence the answers do not sum to 100%

In Table 7.2.3 we explore the use of credit cards by start-up businesses in comparison with older firms. As with current accounts, start-up firms are more likely to use personal credit cards, but 70% do use a business credit card.

The average monthly spends for business expenses on their credit cards are lower for start-up businesses than older firms on both personal (though the sample for start-ups here is small) and business credit cards.

	Start-ups (<2yrs old)	10 yrs+
Use of credit cards(a)		
Use personal	48%	36%
Use business	61%	74%
Use both business and personal	9%	10%
Average monthly spend on personal credit card(b)		
Mean(£)	481	901
Median(£)	125	375
Average monthly spend on business credit card(c)		
Mean(£)	412	1,188
Median(£)	200	500

Bases: (a) Start-ups: n=273,245 (Unweighted: n=99); Businesses 10 yrs +: n=840,946 (Unweighted: n=787)
 (b) Use of personal credit cards: All start-ups reporting on payment: n=124,221 (Unweighted: n=33);
 All businesses 10 yrs+ reporting on payment: n=248,790 (Unweighted: n=133)
 (c) Use of business credit cards: All start-ups reporting on payment: n=154,460 (Unweighted: n=61);
 All businesses 10 yrs+ reporting on payment: n=514,873 (Unweighted: n=597)

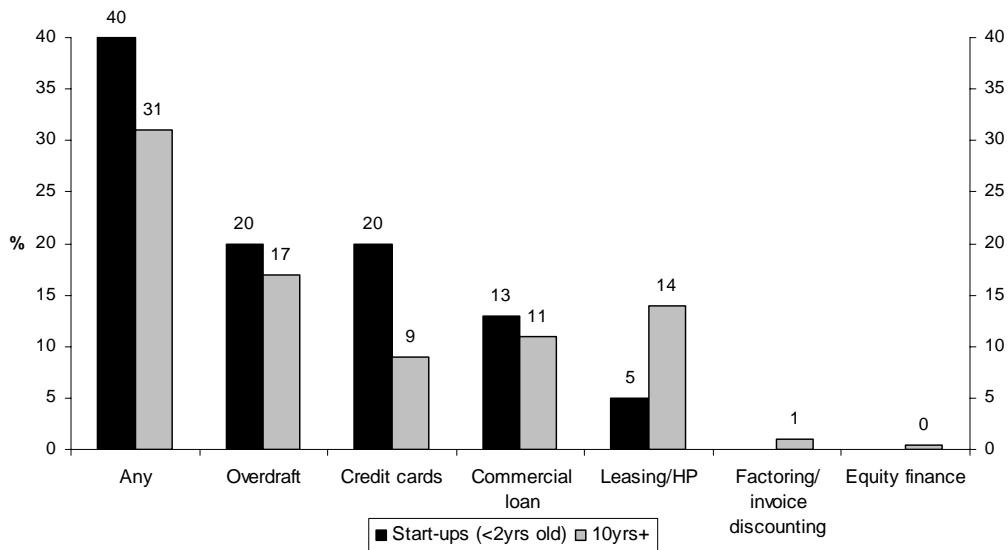
The other forms of finance do not provide enough observations for meaningful analysis. We turn now to the raising of new finance.

7.3 Raising new finance

This section examines attempts to raise new finance and its success. It also examines the reasons for not seeking new finance. Chart 7.3.1 looks at the type of finance sought by start-ups and their older counterparts.

It shows that 40% of start-ups were seeking finance, but only 31% of older businesses were attempting to raise new funding. The type of finance sought is not that different between the two groups except that start-ups are less likely to be seeking leasing and hire purchase finance, but more likely to be extending their use of credit cards.

Chart 7.3.1: Type of finance sought by age of firm



Bases: Start-ups seeking finance: n=723,577 (Unweighted: n=277); Businesses 10yrs+ seeking finance: n=1,971,477 (Unweighted: n=1,477)

Table 7.3.1 shows a comparison of the average amounts of new finance sought and their percentage success in obtaining it. We can see that the start-ups sought very modest sums in comparison with older businesses. Despite this, they obtained a lower percentage of what they sought on average.

Table 7.3.1: Amount of finance sought and % obtained by age of firm

	Start-ups (<2yrs old)	10 yrs+
Average amount sought(a)		
Mean(£)	114,217	356,180
Median(£)	5,000	30,000
% obtained(b)		
Obtained 100%	64%	76%
Obtained <100%	7%	10%
Obtained nothing	29%	14%
Average % obtained(b)		
Mean	67%	81%

Bases (a): Start-ups seeking finance: n=185,822 (Unweighted: n=82);

Businesses 10yrs+ seeking finance: n=425,071 (Unweighted: n=515)

(b): Start-ups seeking finance: n=247,213 (Unweighted: n=120);

Businesses 10yrs+ seeking finance: n=579,909 (Unweighted: n=647)

In Table 7.3.2 we examine the reasons for not seeking new finance and compare the findings for new and old SMEs. The first row reminds us that a higher proportion of

start-ups sought additional finance than old businesses. For those businesses that did not seek finance, the proportions discouraged from seeking finance are low and slightly lower for start-ups; and similar proportions of new and old firms stated that they did not need additional finance.

When we look at those SMEs that did seek finance, we again find a worse picture for start-ups. They are more likely to be partially and/or wholly rejected than old firms. This confirms our findings above about their success rate in obtaining funds.

Table 7.3.2: New finance sought and reasons for not seeking finance by age of firm

	Start-ups (<2yrs old)	10 yrs+
Sought finance(a)	40%	32%
Discouraged from seeking finance(b)	3%	5%
Did not seek finance as it was not needed(b)	63%	62%
Partially rejected when applying(c)	24%	12%
Rejected outright when applying(c)	16%	14%
Partially rejected and/or rejected outright when applying(c)	40%	25%

(a) Base: All start-up businesses: n=723,578 (Unweighted: n=277);
All businesses 10 yrs+: n=1,971,477 (Unweighted: n=1,477)
(b) Base: All start-ups not seeking finance: n=432,450 (Unweighted: n=143);
All businesses 10 yrs+ not seeking finance: n=1,344,986 (Unweighted: n=766) See chapter 4 for details of the new and old definitions.
(c) Base: All start-ups seeking finance: n=291,129 (Unweighted: n=134);
All businesses 10 yrs+ seeking finance: n=626,491 (Unweighted: n=711)

In Table 7.3.3 we make a comparison between the 2004 and 2007 surveys in terms of rejection and discouragement. The sample examined is firms that sought finance and those that were discouraged from doing so. We have different definitions used for the two surveys and this comparison uses the 2004 definition.

In terms of rejection, there are some significant differences between the 2004 and 2007 finding. For both outright and partial rejection in 2007 using the 2004 definition the start-ups fare worse than old firms, but the opposite was the case in 2004 (albeit with old firms defined as more than 2 years rather than ten years). Outright rejection rates for start-ups are higher in 2007, but somewhat lower for partial rejection.

In terms of discouragement, applying the 2004 definition to both surveys implies that this too has increased since 2004 for all businesses. The relative position of new and old businesses has also reversed; and in 2007 we find a higher level of discouragement amongst older businesses than for start-ups.

**Table 7.3.3: Rejections and discouragement by age of firm (2004 definition)
(Firms needing finance)(a)**

	Outright rejection	Partial rejection	Discouraged(b)
All businesses 2004(c)	11%	19%	8%
Start-ups (<2yrs old) 2004	4%	14%	13%
2 yrs+ 2004	12%	20%	8%
All businesses 2007(d)	17%	15%	13%
Start-ups (<2yrs old) 2007	34%	20%	10%
10 yrs+ 2007	15%	10%	14%

(a) Needing finance is defined as those firms who sought finance plus those who felt discouraged to do so

(b) 2004 definition is those who thought they would be turned down at either overdraft, term loan, HP or equity finance

(c) Base: 2004: All firms needing finance: n=1,594,619

(d) Base: 2007 firms needing finance: All firms: n=1,642,987 (Unweighted: n=1,249);

Start-up businesses: n=302,042 (Unweighted: n=139); 10 yrs+: n=686,413 (Unweighted: n=725)

Finally, Table 7.3.4 examines the reasons given for not applying for three types of finance and provides a comparison between start-ups and older firms. The broad picture is much the same, but start-ups show a greater reluctance to borrow funds.

Table 7.3.4: Reasons for not applying for finance by age of firm

	Start ups (<2yrs old)			10 yrs+		
	Overdraft	Term loan	Leasing/ HP	Overdraft	Term loan	Leasing/ HP
Happy with the finance/product we have	18%	11%	9%	32%	15%	9%
Do not need this type of finance	77%	82%	75%	68%	82%	81%
Thought it would be too expensive	5%	9%	10%	5%	6%	8%
Thought I would be turned down	2%	2%	2%	4%	2%	2%
Prefer not to borrow	31%	30%	24%	19%	21%	18%
Can get finance from family and friends if needed	6%	9%	8%	6%	5%	4%
Other	0%	1%	1%	1%	1%	1%

Bases: Firms reporting a reason for each type of finance

Start-ups: Overdraft: n=576,000 (Unweighted: n=198); Term loan: n=629,000 (Unweighted: n=228); Leasing/HP: n=690,000 (Unweighted: n=232);

Businesses 10 yrs+: Overdraft: n=1,645,000 (Unweighted: n=1,125); Term loan: n=1,747 (Unweighted: n=1,235);

Leasing/HP: n=1,701 (Unweighted: n=1,059)

7.4 Multivariate Analysis

We have identified some important differences in the characteristics of start-ups when compared with other SMEs that have been in existence for at least ten years. It is possible that these differences are caused by a key feature of start-ups, for example firm size, rather than being a new business itself. In order to address this problem we use multivariate probit regression analysis.

For this analysis we create the dependent variable by coding business start-ups as having the value 1 and giving old firms the value 0; and we exclude from the analysis firms greater than two years, but less than ten years, old. The results presented in Table 7.4.1 have all such firms included in the first two columns and only those that sought finance in the final two columns.

It is immediately apparent that start-ups are significantly smaller than old SMEs since all the coefficients are negative and highly significant. Even allowing for these other factors, the proportion of start-ups falls as the employment size class considered rises.

After allowing for firm size and these other factors, we do not find a strong sectoral pattern for start-ups, with the only exception being Agriculture. There are fewer start-ups in Agriculture and this difference is significant when all firms are considered, and remains negative but no longer significant when finance seekers are examined.

There are no significant differences across the regions in any of these runs despite some differences in the size of the coefficients. On the other hand, the finding that the business owner of a start-up is younger, and that start-ups have higher growth ambitions, find strong support here.

When we consider the findings for the whole sample, shown in the first two columns, we find some support for the finding discussed earlier in the chapter that start-ups are more likely to be female-led than are old businesses.

The second column adds to these findings by showing the use of finance of various types. Each of the above findings is robust to the introduction of these further variables. In addition, the positive association between SME start-ups and the seeking of additional finance becomes statistically significant.

Start-up SMEs are less likely to be using each of these forms of finance and the differences are highly significant for overdraft finance and for leasing and hire purchase agreements. The differences are less marked for term loans and mortgages and credit cards. These differences exist even after including firm size and sector in the estimating equation.

The final two columns of Table 7.4.1 include only firms that sought finance. The findings concerning size, sector and region are similar for this sample, but we find a significantly lower proportion of start-ups in the deprived areas when looking at finance seekers.

The owner's age is lower, and growth intentions are more dynamic, in start-ups, just as we found for the full sample. The use of various forms of finance also yields

Table 7.4.1 The characteristics of start-up firms

Probit regression analysis: Dependent variable is 1 for start-up and 0 for businesses ten years or more (others excluded)

	All businesses		Finance seekers	
Number of employees(a)				
1-9	-0.69***	-0.58***	-0.89***	-0.62***
10-49	-1.19***	-1.00***	-1.11***	-0.74**
50-249	-2.29***	-1.99***	-2.01***	-1.48***
Industry(a)				
Construction	-0.30	-0.30	-0.17	-0.06
Distribution	0.10	0.04	-0.08	-0.03
Business services	0.10	0.07	0.05	0.12
Other services	0.08	0.10	0.28	0.41
Agriculture	-0.96***	-0.92***	-0.64	-0.31
Region(a)				
London	-0.14	-0.16	-0.21	-0.25
South East	0.26	0.27	0.33	0.20
East	0.02	0.03	0.29	0.19
South West	-0.09	-0.05	-0.01	-0.07
East Midlands	0.00	0.05	0.09	0.17
Yorkshire and Humber	0.19	0.14	0.66	0.45
North West	-0.18	-0.22	0.41	0.36
North East	-0.09	0.14	-0.12	-0.28
Wales	0.05	0.07	0.05	-0.26
Scotland	-0.17	-0.21	0.27	-0.12
N Ireland	-0.39	-0.42	-0.87	-0.93
Deprived area	-0.04	-0.07	-0.27	-0.40*
Business factors				
Owner age	-0.05***	-0.05***	-0.05***	-0.06***
No A' level	0.01	0.05	-0.10	-0.09
Owner has degree	0.16	0.14	0.06	-0.12
Sole trader	0.03	0.07	0.01	0.12
Female-led	0.26**	0.25*	0.00	0.02
Business improver	-0.10	-0.07	-0.23	-0.15
Intend growth	0.74***	0.76***	1.05***	1.10***
Use overdraft		-0.41***		-0.68***
Use loan/mortgage		-0.23*		-0.20
Use leasing/HP		-0.40***		-0.60***
Use credit card		-0.27***		-0.23
Ln amount sought			-0.01	0.03
Sought finance	0.16	0.51***		
Complete success			-0.34*	-0.32
Observations	1,507	1,491	497	495
Chi ²	307.5	359	131.3	151.2
Pseudo R ²	0.37	0.4	0.37	0.43

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

similar results to those above. When all of these factors are taken into account, there is no difference in the additional finance sought by start-ups relative to old businesses. On the other hand, we find some evidence that start-ups are somewhat less successful in obtaining all of the finance they sought.

Executive Summary

- *This chapter makes a comparison between business start-up firms and those that have been in existence for ten years, or more. Business start-ups are defined as firms up to two years old.*
- *Looking first at all SME start-ups we find that about two-fifths wanted to make money (33%), or to follow a good business idea (7%) – we term these business-oriented motivations. Slightly less than two-fifths wanted to be their own boss (27%), or to fulfil a life's ambition to run their own business (10%) – we term these life style motivations. In addition, we have another group that were either frustrated with a 9 to 5 job (5%), or had no other employment available (5%) – we term these employment motivations.*
- *There is a higher proportion of start-ups amongst sole proprietorships than other business forms, possibly suggesting that other forms may first start their business life as sole proprietors, or that the rate of failure of sole proprietors is higher than other legal forms. Partnerships exhibit the lowest proportion of start-ups.*
- *The start-up firms were asked how much money was needed to set up their business. The weighted mean was £31,000, but the median was £7,500. It is clear that personal savings dominate with bank loans and loans from friends and families next, but a long way behind.*
- *A comparison of start-ups with firms at least ten years old was conducted using multivariate probit regression analysis taking account of various business characteristics other than firm age itself. The key findings were:*
 - *start-ups are significantly smaller than old SMEs;*
 - *no strong sectoral pattern for start-ups, with the only exception being Agriculture where there are fewer start-ups;*
 - *no significant differences across the regions;*
 - *the business owner of a start-up is younger;*
 - *start-ups have higher growth ambitions;*
 - *some support that start-ups are more likely to be female-led;*
 - *start-up SMEs are less likely to be using each form of finance;*
 - *including only firms that sought finance we find a significantly lower proportion of start-ups in the deprived areas;*
 - *when all of these factors are taken into account, there is no difference in the additional finance sought by start-ups, but we find some evidence that start-ups are somewhat less successful in obtaining all of the finance they sought.*

8 Super Growth Businesses

In this chapter we focus on the characteristics of super growth firms and their access to finance. There are a number of reasons to focus on super growth businesses as a distinctive group within the whole small business population. The first of these reasons is that it is well known that only a minority of businesses in the small business sector maintain high rates of growth. The distribution of small business growth rates is highly skewed. The majority of small businesses either do not grow or decline in size in any two or three year period whilst only a small percentage experience substantial sustained growth. However, those that do grow in a sustained fashion have a substantial impact on the role which small firms as a whole play in the economy. This is because the bulk of new jobs and value added created by the small business sector in any period is accounted for by the minority of sustained fast-growing firms.

In addition to their potential role in the generation of employment and value added, there is evidence to suggest that super growers may also be more likely to be innovators. They are, however, also more likely to be experiencing higher constraints arising from both finance and a variety of marketing skills as they push against the boundaries of their resource capacities. Fast-growing firms are thus more likely to run into various constraints in financial markets that might affect their ability to maintain their expansion. It is well known, for instance, that given profitability and internal cash flow they are the most likely firms to be seeking external finance and from a wider variety of sources and are therefore the most likely to be involved in interactions with capital markets. To the extent that fast-growing firms experience problems in obtaining the finance they seek and to the extent that this is due to lack of collateral, lack of track record or imperfect information about their prospects then there may be possible policy implications.

In this report we define super growth firms as those that reported that they had experienced turnover growth of 30% or more in each of the previous three years and who also reported that they intended to grow in the next three years. On this basis, 13% of firms in the sample can be categorised as super growth businesses. The remainder of firms who grew less fast than that, or stayed the same size, or declined account for the other 87%. It is important to note that firms that were born within the last three years are, by definition, excluded from this analysis. It is also important to bear in mind that, in general, it is more likely that a very small firm in terms of turnover can achieve a higher and sustained *percentage* turnover growth than a larger firm, since it starts from a lower base, and that a zero employee firm responding to the survey could have experienced positive turnover growth in preceding periods.

8.1 Business Characteristics, Growth Objectives, Innovation, and Financial Advice

Table 8.1.1 provides an overall summary of the characteristics of super growth firms compared with the remainder of the business population. The first column reports in the first row the share of super growth firms in the small business population and successive rows of that column report the share of super growth firms in each category of the small business population. The second and third columns show the

distribution of super growth and other firms across the various categories. Thus if we read across row 2 the first column shows that 11% of all zero employee firms are super growth which is below their share in the whole population of 13%. The second column shows that of all super growth firms 55% are to be found in this size category whilst the third column shows that 69% of other firms are to be found in this category. The relative size of these last two percentages reveals once again the *relatively* low incidence of super growth firms in that size class compared to other firms. If we focus on the first column it is clear that in terms of size, super growth firms are more likely to be found in the larger size categories. Thus, whereas in the zero employees group only 11% of firms are classified as super growers, in the 50-249 employees group, 21% were. A similar picture emerges in terms of turnover. Thus, whereas amongst firms with a turnover of £1m plus 26% were super growers, in the less than £50k group only 10% were.

Table 8.1.1: Business characteristics by growth category

Category	Super growers as a % of all firms	Super growers % distribution	Other firms % distribution
All businesses	13%	13%	87%
Number of employees			
0	11%	55%	69%
1-9	17%	37%	26%
10-49	20%	6%	4%
50-249	21%	2%	1%
Turnover(a)			
Less than £50,000	10%	28%	41%
£50,000-£499,999	13%	41%	44%
£500,000-£999,999	24%	11%	6%
£1,000,000+	26%	20%	9%
Industry			
Agriculture	9%	3%	5%
Manufacturing	16%	9%	8%
Construction	12%	22%	24%
Wholesale/retail	15%	15%	13%
Service sectors	13%	51%	50%
Legal status			
Sole trader	10%	43%	55%
Partnership	11%	8%	10%
Limited company	18%	49%	35%
Deprivation (15%)			
Deprived area	15%	22%	19%
Other	13%	78%	81%

Bases: Super growers: n=414,058 (Unweighted: n=358); Other firms: n=2,755,036 (Unweighted: n=1,701)
(a) Business reporting growth status and turnover: n=2,725,088 (Unweighted: n=1,737)

In terms of the distribution of super growth firms by sector, a comparison of the second and third columns show that there is little difference across the sectors, except that these firms are less likely to be found in Agriculture and Construction.

In terms of legal status Table 8.1.1 shows that, as might be expected, super growth businesses are more likely to be limited companies than is the case for the rest of the small business population.

Interestingly, Table 8.1.1 also shows that there is very little difference in the distribution of super growth businesses in terms of the level of deprivation of the areas in which they are located. If anything, the differences that emerge suggest that they are more likely to be found in deprived areas than other types of business. However, the differences are very small.

Table 8.1.2 provides an analysis of super growth firms compared with other firms in terms of the characteristics of their principal owner. If we focus on age, the first thing which emerges is that super growth firms are much more likely to have younger owners. Thus, the proportion of super growers with principal owners in the 21-39 year age group is 23%, which is nearly twice the proportion of super growers found in the business population as a whole. Conversely, only 6% of firms with principal owners aged over 55 are super growth firms.

In terms of the nature of business leadership Table 8.1.2 shows that the proportion of super growth firms with female leadership is relatively low (10% compared with 13% in the business population as a whole). There is, however, no difference in the ownership characteristics of super growers compared to other businesses. In both cases 12% of firms have female majority ownership.

Super growth firms are relatively over-represented in the 1-3 and 4-9 year ranges of business experience and underrepresented in the 10+ category. They thus have relatively inexperienced management which may reflect a younger age profile for these businesses.

As might be expected, super growth firms who had maintained over 30% growth in the previous years covered by the survey and were seeking to grow, were relatively more likely to be seeking to grow substantially and to grow moderately.

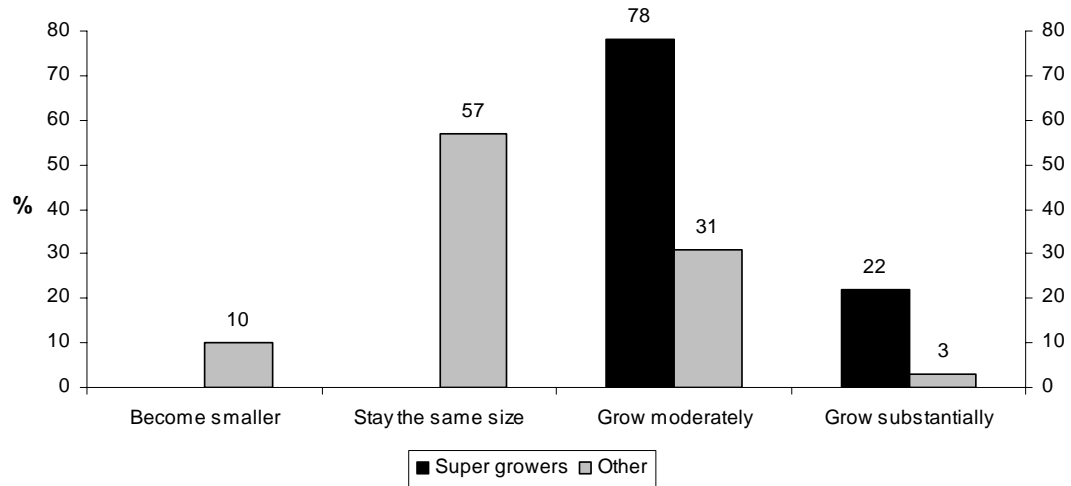
In interpreting the numbers in this row in Table 8.1.2, it is important to note that our definition of super growth firms means that 100% of the super growth firms were seeking to grow (either moderately or substantially). The fact that 34% of the other firms seek to grow moderately or substantially implies, of course, that 66% were not seeking to grow at all. This is shown graphically in Chart 8.1.1.

Table 8.1.2: Principal owner characteristics by growth category

Category	Super growers as a % of all firms	Super growers % distribution	Other firms % distribution
All businesses	13%	13%	87%
Age			
Under 21 years(a)	42%	0%	0%
21-39 years	23%	33%	16%
40-55	15%	50%	42%
55+	6%	17%	42%
Female leadership			
<50%	13%	77%	77%
=50%	16%	14%	11%
>50%	10%	9%	13%
Female ownership			
<50%	13%	78%	76%
=50%	11%	10%	12%
>50%	13%	12%	12%
Highest academic qualification			
None/GCSE	13%	34%	33%
Other	11%	38%	45%
University degree	16%	28%	22%
Business experience			
<1 year	6%	0%	1%
1-3 years	31%	5%	2%
4-9 years	27%	43%	17%
10+ years	9%	52%	81%
Growth objectives			
% seeking to grow moderately	28%	78%	31%
% seeking to grow substantially	55%	22%	3%
Innovation			
Developed a new product/ service/aspect of business in last 3 yrs	19%	52%	34%

(a) The total number of firms in this group is so small that they account for less than 1% of all firms, hence the reporting, after rounding, of the zero figures in columns 2 and 3.
Bases: Super growers: n=414,058 (Unweighted: n=358); Other firms: n=2,755,036 (Unweighted: n=1,701)

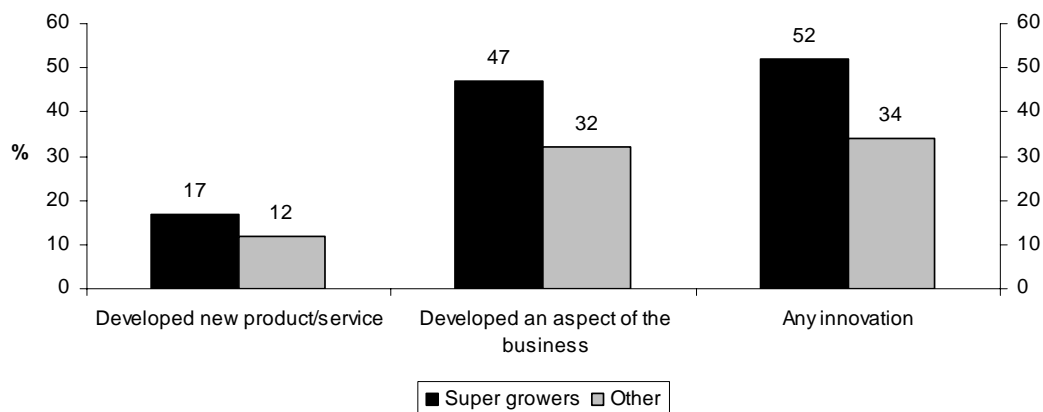
Chart 8.1.1 Growth objectives by growth category



Bases: Super growers: n=414,059 (Unweighted: n=358); Other firms: n=2,755,036 (Unweighted: n=1,701)

The final row in Table 8.1.2 confirms the results of other surveys, that super growth firms are more likely to be associated with having developed a new product or service or aspect of their business in the last three years. Thus, over 50% of super growth firms claimed to have done this, whereas only 34% of other firms in the business population did so. Chart 8.1.2 shows that super growth firms are more likely to be innovating in both new products and services and in the wider definition of innovation covering any aspects of their business.

Chart 8.1.2 Innovation by growth category



Bases: Super growers: n=414,059 (Unweighted: n=358); Other firms: n=2,755,036 (Unweighted: n=1,701)

Table 8.1.3 provides an analysis of management and organisational practices. It reveals that super growth businesses are more likely than other firms to have a

formally qualified or trained financial manager; written business and HR plans; and performance related pay. They are also more likely to have a web site for trading. Differences in terms of total quality management and exporting are much smaller.

Table 8.1.3: Selected management and organisational characteristics by growth category

Category	Super growers(a)	Other(b)
Formally qualified or trained financial manager	26%	18%
Written business plan	45%	24%
Written HR plan(c)	13%	7%
Performance related pay(c)	14%	7%
Use total quality management	17%	14%
Web site for trading	41%	31%
Export goods or services	11%	9%

(a) Base: Super growers: n=414,058 (Unweighted: n=358)
(b) Base: Other firms: n=2,755,037 (Unweighted: n=1,701)
(c) Excluding firms with no employees

Despite the difference between growth categories in the presence of financially qualified managers it is notable that Table 8.1.4 suggests that firms in each of them are just as likely to say that they have no barriers to improving financial skills because they are already capable. This may reflect wishful thinking on the part of the lower growth firms or that their financial needs are less complex.

The table also shows that super growth firms are more likely to be constrained by pressure of time to improve skills and much less likely to say that they cannot be bothered to improve them. The super growers are somewhat more likely to express a lack of knowledge about sources of help despite being more aware of local programmes although the latter difference is small.

Table 8.1.4: Barriers to improving financial skills by growth category

Category	Super growers (a)	Other (b)
Too busy/other more important things to worry about	31%	23%
Can't be bothered	3%	11%
Can't afford it	2%	4%
Don't know where to look for this help	10%	4%
Not necessary/just don't need it/already perfectly capable	55%	55%
Aware of local programmes to help people develop their financial skills?	29%	24%

(a) Base: Super growers: n=414,058 (Unweighted: n=358)
(b) Base: Other firms: n=2,755,037 (Unweighted: n=1,701)

The super growers who, as we have seen, are more likely to have qualified financial management resources are also, as Table 8.1.5 shows substantially more likely to be aware of local sources of equity finance. However, it is perhaps disappointing that awareness amongst super growers is still low – 65% said they were not aware of local public sector venture capital funds or of local support programmes, despite both being targeted at super growers.

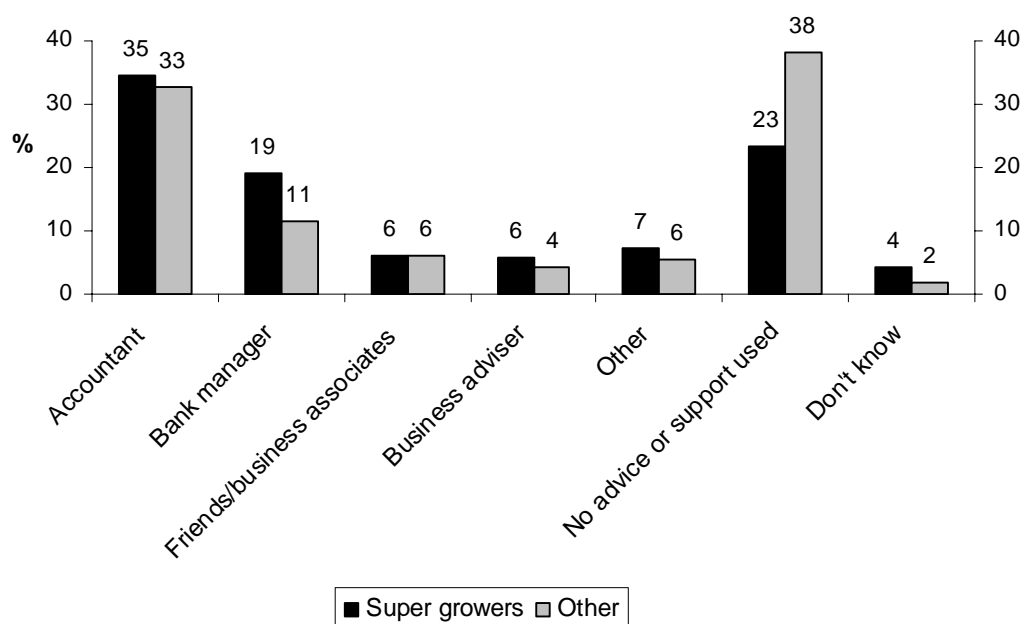
Table 8.1.5: Local equity sources awareness by growth category (Companies only)

Category	Super growers (a)	Other (b)
A local venture capital fund	30%	16%
Any local support programmes that can help prepare a pitch to an external investor	17%	11%
Neither of these	65%	81%

(a) Base: Super growers: n=204,658 (Unweighted: n=239)
(b) Base: Other firms: n=956,414 (Unweighted: n=974)

The super growers are also revealed in Chart 8.1.3 as being more likely to seek advice from their bank manager and substantially less likely to report that they use no advice or support.

Chart 8.1.3 Sources of financial advice by growth category



Bases: Super growers: n=414,058 (Unweighted: n=358); Other firms: n=2,755,035 (Unweighted: n=1,701)

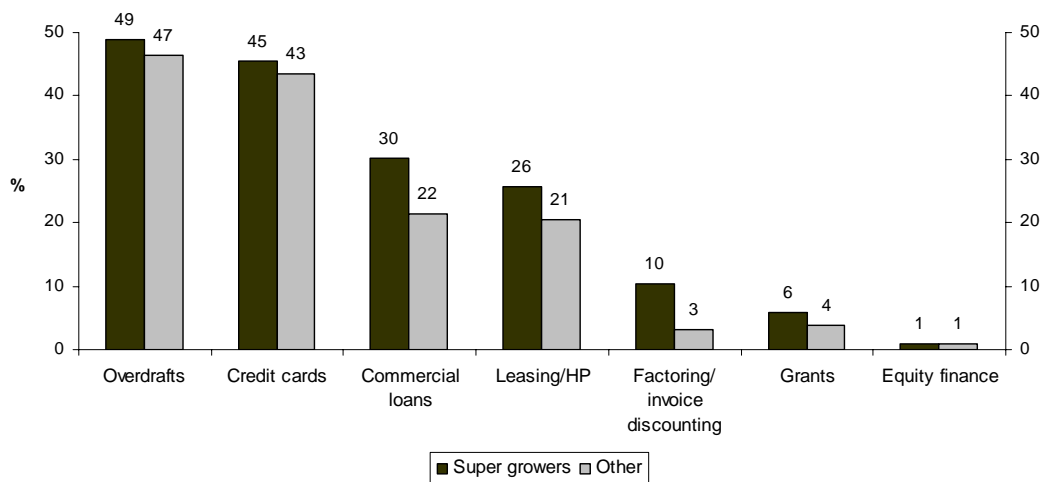
The overall picture which emerges is that super growth firms are more likely to be innovative; to be employing formal business planning methods; to have qualified financial expertise in their management team; to be more aware of local equity capital and to seek advice from their bank.

8.2 Use of Financial Products

A comparison of super growth businesses with the rest of the small business population shows a very similar pattern in terms of the relative frequency of use of different financial products. Thus Chart 8.2.1 shows that overdrafts and credit cards are the most frequently used financial product in both groups of firms followed in turn by term loans, leasing/HP, factoring/invoice discounting, grants and, finally, equity.

The relative frequency with which super growth businesses use term loans and leasing/HP and factoring/invoice discounting tends to be greater than is the case with the use of overdrafts, credit cards, grants and equity where the likelihood that a super growth firm will be using the product is much more similar to the likelihood that the other business firms in the population would be using that product. There thus appears to be no significant differences in the overall range of financial products used when comparing super growth firms with other types of small business. In both cases it is noticeable that equity finance is extremely rarely used and that overdrafts and credit cards are by far the most frequently used product.

Chart 8.2.1 Financial products used in the last three years by growth category



Bases: Super growers: n=414,059 (Unweighted: n=358); Other firms: n=2,755,036 (Unweighted: n=1,701)

In terms of the use of personal and business accounts Table 8.2.1 reveals that super growth firms are less likely to use personal accounts for business purposes than are other types of firms. They are also somewhat more likely to use business accounts. In the case of personal accounts, 6% of super growers report using these for business purposes whereas 12% of other types of businesses do so.

In terms of payment for business banking by super growth firms Table 8.2.1 also shows that they are more likely to not have to pay or to have free banking (30% as opposed to 21%). Super growth firms are less likely to pay charges, but receive interest on credit balances, but this is offset by the increased likelihood that they will not receive credit interest, but get some transactions free or at a discounted rate.

The upshot is that the average monthly bank charge paid by a super growth firm is £180 compared to £127 paid by other firms in the business population and this ratio of charges remains the same when we look at the median values of £85 and £50

respectively. Super growth businesses are marginally more likely to have changed their bank in the last year and have a substantially lower average length of relationship with their bank. This may, however, simply reflect their lower age. It is worth noting that the average monthly bank charges faced by super growth firms are higher. This may reflect the fact that as we have seen they are on average somewhat larger than other types of small business, and may therefore be expected to have somewhat higher service requirements from their banks. Equally as we shall see below they seek more finance and do so more frequently.

Table 8.2.1: Use of current accounts by growth category

	Super growers	Other
Use personal or business account?(a)		
Personal	6%	12%
Business	94%	87%
Don't know	0%	1%
How do you pay for your business banking?(b) (Business accounts only)		
I don't pay at all, have free banking	30%	21%
I pay charges but receive interest on credit balances	50%	63%
I don't receive credit interest but get some transactions free or at a discounted rate	13%	9%
Other	3%	6%
Don't know	2%	2%
Average monthly bank charge(c) (Business accounts only)		
Mean(£)	180	127
Median(£)	85	50
Whether changed main business bank in last year(d)		
Yes	5%	3%
Average length of relationship (years)		
with main bank(e)	8	15
with other providers in addition to main bank(f)	10	13
Bases: (a) Super growers: n=332,857 (Unweighted: n=319); Other firms: n=2,382,175 (Unweighted: n=1,508)		
(b) Firms with business accounts: Super growers: n=312,959 (Unweighted: n=310); Other firms: n=2,068,417 (Unweighted: n=1,424)		
(c) Firms with business accounts: Super growers: n=187,239 (Unweighted: n=214); Other firms: n=1,394,460 (Unweighted: n=1,029)		
(d) Super growers: n=414,059 (Unweighted: n=358); Other firms: n=2,755,036 (Unweighted: n=1,701)		
(e) Super growers: n=410,516 (Unweighted: n=356); Other firms: n=2,733,579 (Unweighted: n=1,686)		
(f) Super growers: n=161,095 (Unweighted: n=158); Other firms: n=776,512 (Unweighted: n=702)		

Table 8.2.2 shows that super growth firms typically hold much less on deposit than other firms. Super growth firms, as perhaps might be expected on the basis of their greater size, have as Table 8.2.2 shows somewhat higher overdraft limits (£46k compared to £33k or ,from the more robust median values, £10k and £4k respectively). They are somewhat more likely to have to put up security to obtain this overdraft whereas 79% of other businesses were not required to provide security.

This was true for only 72% of the super growth firms. In terms of the fees or charges to arrange the overdraft facility, as with the previous answers in relation to the costs associated with business banking, the super growth firms were less likely to have had to pay fees or charges to arrange their overdraft facilities (55% compared with 65% for other businesses).

Table 8.2.2: Use of deposits and overdrafts by growth category

	Super growers	Other
Average amount held on deposit(a)		
Mean(£)	106,420	146,132
Median(£)	7,500	30,000
Average size of overdraft limit(b)		
Mean(£)	46,059	32,626
Median(£)	10,000	4,000
Was any security required to obtain this overdraft?(c)		
Yes	28%	21%
No	72%	79%
Did your business pay fees or charges to arrange this facility?(c)		
Yes	55%	65%
No	41%	31%
Don't know	4%	4%

Bases: (a) All super growers reporting amount on deposit: n=168,359 (Unweighted: n=143);
All other firms reporting amount on deposit: n=846,383 (Unweighted: n=659)
(b) All super growers reporting overdraft limit: n=101,751 (Unweighted: n=102);
All other firms reporting overdraft limit: n=666,446 (Unweighted: n=462)
(c) All super growers with overdrafts: n=166,878 (Unweighted: n=183);
All other firms with overdrafts: n=1,084,946 (Unweighted: n=811)

If we now turn to the use of term loans and mortgages we find from Table 8.2.3 that, once again, the super growth firms tend to have a somewhat higher average size of use of this financial product (£426k compared with £267 or looking at the median values, £120k and £59k respectively). This is associated with a much more frequent use of the largest loan or mortgage for the purchase of premises (47% compared to 31%). In contrast to the position with overdrafts, super growth firms were less likely to be required to offer security to get the loan or mortgage. Thus 50% of super growth firms had to provide security, whilst 61% of other firms had to do so. Three quarters of super growth firms reported having to pay fees or charges to arrange the loan or mortgage which was somewhat higher than the 67% of other types of small businesses who sought this service.

Comparisons of loan details in Table 8.2.3 are complicated by the fact that there are some extreme values which distort the latter especially for non-growth firms. If we focus on median values, it appears that super growth firms have larger loan amounts outstanding in relation to both external sources and from the board and from family and friends. They also have more loans and are more likely to have small firms loan guarantee backed loans (although the percentage with this is very low for both types of firms). There is little difference in the average length of loans.

Table 8.2.3: Use of term loans/mortgages by growth category

Category	Super growers	Other
Average size of largest term loan(a)		
Mean(£)	426,083	266,569
Median(£)	120,000	59,000
What is the largest loan/mortgage mainly used for?(b)		
Premises	47%	31%
Working capital	15%	20%
Equipment/machinery	5%	7%
Property/property investment	6%	6%
Motor vehicles	6%	7%
Fund expansion	4%	6%
Other fixed assets	4%	5%
Develop new products/services	4%	1%
Both working capital and fixed assets	0%	5%
Other	3%	9%
Don't know	4%	3%
Loan details(c)		
% requiring security	50%	61%
% paying arrangement fee	75%	67%
Average number of loans/mortgages	4	2
Amount outstanding – mean(£)	232,230	347,667
Amount outstanding – median(£)	200,000	75,000
Average length of loan (years)	13	11
% obtained under SFLG scheme	3%	1%
Loans from friends and family; or owners, directors or shareholders – amount outstanding(d)		
Mean(£)	91,383	205,664
Median(£)	30,000	10,000
(a) Bases: All super growers with loans reporting values: n=72,918 (Unweighted: n=59); All other firms with loans reporting values: n=288,221 (Unweighted: n=242)		
(b) Bases: All super growers with loans reporting reasons: n=4,778 (Unweighted: n=109); All other firms with loans reporting reasons: n=14,022 (Unweighted: n=437)		
(c) Bases: All super growers reporting outstanding loans: n=68,004 (Unweighted: n=73); All other firms reporting outstanding loans: n=355,943 (Unweighted: n=323)		
(d) Bases: All super growers reporting amount outstanding from friends and owners: n=53,911 (Unweighted: n=57); All other firms reporting amount outstanding from friends and owners: n=247,585 (Unweighted: n=189)		

An analysis of repayment problems and interest rate patterns is shown in Table 8.2.4. Super growth firms were equally as likely as other firms to have been unable to make overdraft repayments, but more likely to have been in this position in relation to HP and mortgages or loans. They were more likely to have variable overdraft interest rates, but the result must be interpreted with caution, since almost 20% of the other firms reported that they didn't know whether their rates were fixed or variable (compared to only 5.8% for super growers).

Table 8.2.4: Repayments, fixed/variable interest rate by growth category

Category	Super growers	Other
Unable to make repayments in last 12 months		
Overdraft(a)	29%	30%
Loan/mortgage(b)	15%	10%
Leasing/HP(c)	29%	9%
Interest on overdraft		
% with fixed overdrafts(a)	36%	32%
Average fixed rate(d)	4.7%	4.9%
% with variable overdrafts(a)	59%	48%
Average margin above base rate(e)	2.5%	2.3%
Don't know whether fixed or variable(a)	5.8%	19.9%
Interest on loan/mortgage(f)		
% with fixed loans/mortgages(b)	36%	31%
% with variable loans/mortgages(b)	53%	55%
Don't know whether fixed or variable(b)	5.1%	5.3%

(a) Base: All super growers using an overdraft: n=166,878 (Unweighted: n=183); All other firms using an overdraft: n=1,085,115 (Unweighted: n=812)

(b) Base: All super growers with a loan: n=107,751 (Unweighted: n=109); All other firms with a loan: n=454,153 (Unweighted: n=437)

(c) Base: All super growers using leasing/HP: n=84,524 (Unweighted: n=134); All other firms using leasing/HP: n=435,228 (Unweighted: n=575)

(d) Base: All super growers using an overdraft with fixed rate, reporting values: n=46,101 (Unweighted: n=50); All other firms using an overdraft with fixed rate, reporting values: n=200,933 (Unweighted: n=177)

(e) Base: All super growers using an overdraft with variable rate, reporting values: n=73,822 (Unweighted: n=72); All other firms using an overdraft with variable rate, reporting values: n=413,909 (Unweighted: n=373)

(f) The fixed rate and margin above base rate are not shown for loans/mortgages as there were below 50 cases in the growth category

In relation to credit cards Table 8.2.5 shows that super growth firms are more likely to be business credit card users (81% compared to 73%) and less likely to use personal credit cards (22% compared to 37%). There is also a substantial difference between super growth firms and the rest in the amount of monthly business spend made on personal credit cards. Thus, the average monthly spend of super growth firms was £1,381 (£1,000) compared with £781 (£375) for other types of firms, but the very low sample size makes this result unreliable. The average monthly spend on business credit cards alone was much more similar - £1,384 (£750) for super growth firms compared to £1,169 (£400) for other firms.

Table 8.2.5: Use of credit cards by growth category

	Super growers	Other
Use of credit cards(a)		
Use personal	22%	37%
Use business	81%	73%
Use both business and personal	3%	9%
Average monthly spend on personal credit card(b)		
Mean(£)	1,381	781
Median(£)	1,000	375
Average monthly spend on business credit card(c)		
Mean(£)	1,384	1,169
Median(£)	750	400

Bases: (a) Super growers: n=166,516 (Unweighted: n=215); Other firms: n=1,047,045 (Unweighted: n=848)
(b) Bases: Use of personal credit cards: All super growers reporting on payment: n=32,746 (Unweighted: n=30);
All other firms reporting on payment: n=308,696 (Unweighted: n=152)
(c) Bases: Use of business credit cards: All super growers reporting on payment: n=115,113 (Unweighted: n=159);
All other firms reporting on payment: n=653,448 (Unweighted: n=653)

8.3 Types of Finance Sought

As might be expected, super growth firms were more likely to be seeking finance than other small businesses. Thus, as Table 8.3.1 shows, 50% of super growth firms sought finance of some form in the previous three years compared with 33% of the other businesses. There was little to choose between the groups in terms of being discouraged from seeking finance. Super growth firms were more likely to be partially rejected, but no more likely to meet with outright rejection.

Table 8.3.1: New finance sought and reasons for not seeking finance by growth category

	Super growers	Other
Sought finance(a)	50%	33%
Discouraged from seeking finance(a)	2%	3%
Did not seek finance as it was not needed(b)	60%	63%
Partially rejected when applying(c)	32%	9%
Rejected outright when applying(c)	16%	15%
Partially rejected and/or rejected outright when applying(c)	42%	22%

(a) Base: All super growers: n=414,059 (Unweighted: n=358);
All other firms: n=2,755,036 (Unweighted: n=1,701)
(b) Base: All super growers not seeking finance: n=207,033 (Unweighted: n=149);
All other firms: n=1,836,822 (Unweighted: n=906)
(c) Base: All super growers seeking finance: n=206,226 (Unweighted: n=209);
All other firms seeking finance: n=918,214 (Unweighted: n=795)

By far the largest difference between the super growth firms and the other firms was in the frequency with which overdraft and credit card finance was sought. This is shown in Table 8.3.2. In each case, super growth firms were twice as likely to seek these forms of finance as was the case with other firms. Thus, in the case of overdrafts, 35% of super growth firms sought overdraft finance compared with 18% of other firms.

Table 8.3.2: Type of finance sought by growth category

	Super growers	Other
Type of finance		
Any	50%	33%
Overdraft	35%	18%
Term loan/mortgage	19%	14%
Leasing/HP	17%	13%
Factoring/invoice discounting	3%	1%
Credit cards	21%	10%
Equity finance/ issuing shares	1%	0%
None of these	50%	67%

Bases: All super growers: n=414,058 (Unweighted: n=358);
All other firms: n=2,755,036 (Unweighted: n=1,701)

If we turn to the amount of finance sought, Table 8.3.3 shows that the average amount sought was higher in super growers (£30k compared to £17k) and that they were less likely to get all they sought. However, when the percentage obtained is compared they get a little more which suggests that when other firms fail to get all they seek, they do so by much bigger margins.

Table 8.3.3: Amount of finance sought and % obtained by growth category

	Super growers	Other
Average amount sought(a)		
Mean(£)	382,426	230,834
Median(£)	30,000	17,000
% obtained(b)		
Obtained 100%	64	74
Obtained <100%	24	14
Obtained nothing	11	13
Average % obtained(b)		
Mean	82	80

Bases: (a) All super growers seeking finance and reporting amount sought: n=141,274 (Unweighted: n=134);
All other firms seeking finance and reporting amount sought: n=641,899 (Unweighted: n=572)
(b) All super growers seeking finance and reporting % obtained: n=191,561 (Unweighted: n=187);
All other firms seeking finance and reporting % obtained: n=860,532 (Unweighted: n=726)

8.4 Rejections and Discouragement by Type of Finance sought

Table 8.4.1 compares the experiences of super growth and other firms in terms of seeking finance. It is important to note in Table 8.4.1 that in addition to counting firms who actively sought finance, we also consider those who felt discouraged from seeking finance, even though they felt they needed it. Thus, the first row of the table shows that of those who needed finance (i.e. they sought finance or felt discouraged from seeking it) 7% were discouraged.

Table 8.4.1: Rejections and discouragement by type of finance and growth category

Type of finance	Outright rejection(a)	Partial rejection(a)	Discouraged(b)
All businesses	19%	16%	7%
Super growers	16%	32%	5%
Other	15%	9%	8%
Overdraft			
Super growers	19%	27%	13%
Other	10%	9%	14%
Term loan			
Super growers	2%	25%	10%
Other	5%	4%	10%
Leasing or HP			
Super growers	6%	1%	4%
Other	10%	2%	10%
Credit cards			
Super growers	15%	12%	-
Other	19%	13%	-

(a) Bases: All firms seeking finance: n=1,523,114 (Unweighted: n=1,214);

Super growers seeking finance: n=206,226 (Unweighted: n=209); Other firms seeking finance: n=918,214 (Unweighted: n=795)

(b) Needing finance is defined as those firms who sought finance plus those who felt discouraged to do so

(b) Bases: All firms needing finance: n=1,642,987 (Unweighted: n=1,249);

Super growers needing finance: n=216,025 (Unweighted: n=215); Other firms needing finance: n=993,601 (Unweighted: n=814)

Of those firms who felt they needed finance, but were not discouraged, the table shows that super growth firms were, as we have noted earlier, much more likely to be partially rejected than other types of firms and that this is principally due to partial failure in relation to overdraft and term loans. Thus, 32% of super growers experienced partial rejection compared to 9% of other types of firms.

If we focus on discouragement, it appears that the differences in the likelihood of being discouraged, which is higher for other types of firms than for super growers, arises in relation to leasing and HP. Super growers report being discouraged from

seeking this form of finance in only 4% of the relevant cases whereas 10% of other types of small business report being discouraged. In the other categories of finance the proportions of discouragement are about the same. There is no evidence that super growth firms are relatively discouraged from seeking finance or that the proportion discouraged is high.

The survey instrument sought to find out the reasons for outright and partial rejections. Unfortunately very few firms responded to those questions and it is therefore not possible to make any sensible statements based on robust numbers.

In order to probe for the type of finance sought, the firms were asked why they had not applied for forms of finance that they did not actually seek. Table 8.4.2 shows the results of this analysis. For overdrafts, term loans and leasing/HP, the main reason that super growth firms did not choose these products was overwhelmingly because they stated that they did not need this type of finance.

Expectations of being turned down or of too high expense were rarely thought to be important factors. Thus, it appears that for super growth firms contentment with the financial products they already had and the types of finance they chose to apply for were the main reasons. They were not forced into one type of finance through constraints arising from costs or the likelihood of being turned down for other types of finance. Thus, our previous finding that super growth firms were more likely to be partially turned down for overdraft and term loan finance appears not to lead to the pursuit of less preferred sources.

Table 8.4.2: Reasons for not applying for finance by growth category

	Super growers (a)			Other (b)		
	Overdraft	Term loan	Leasing/HP	Overdraft	Term loan	Leasing/HP
Happy with the finance/product we have	22%	24%	13%	31%	15%	9%
Do not need this type of finance	82%	80%	83%	67%	81%	81%
Thought it would be too expensive	6%	7%	8%	4%	6%	9%
Thought I would be turned down	4%	4%	2%	3%	3%	3%
Prefer not to borrow	16%	21%	16%	18%	19%	19%
Can get finance from family and friends if needed	9%	6%	4%	7%	6%	5%
Other	0%	2%	0%	1%	0%	1%
Don't know	4%	0%	0%	0%	1%	1%

Bases: Those reporting a reason for each type of finance

(a) Super growers: Overdraft: n=270,462 (Unweighted: n=249); Term loan: n=335,790 (Unweighted: n=272); Leasing/HP: n=344,488 (Unweighted: n=251)

(b) Other firms: Overdraft: n=2,255,615 (Unweighted: n=1,297); Term loan: n=2,369,725 (Unweighted: n=1,434); Leasing/HP: n=2,392,471 (Unweighted: n=1,256)

In the specific case of equity, Table 8.4.3 reports the reasons for not applying given by super growth firms. 76% of the super growth firms said they did not apply for equity, because they had sufficient finance from other sources or did not need it to

finance the business. Around a third, however, said they did not seek equity, because they did not wish to give up control of the business, although this was slightly lower than for other firms.

Questions of expense or difficulty or discouragement were not important issues. We also analysed these issues for firms other than super growth firms who had sought finance. The broad pattern of responses is the same as for super growth firms. In both cases questions of expense, discouragement or difficulty were not significant factors in applying for sources of finance other than the type they sought.

Table 8.4.3: Reasons for not applying for equity by growth category

	Super growers	Other
Do not need it as have finance from other sources	41%	33%
Do not need it as do not need finance for the business	35%	28%
Don't want to give up control of business	32%	37%
Happy with the equity finance we have	15%	11%
Thought it would be too expensive	2%	3%
Thought it would be time consuming	2%	3%
Don't know how to go about it	2%	8%
Thought I would be turned down	0%	1%
None of these	5%	3%

Base: Those reporting a reason for equity finance
 Bases: Super growers: n=201,982 (Unweighted: n=225); Other firms: n=949,970 (Unweighted: n=952)

The survey asked what the impact of rejection was on their business. The number of firms answering this question was, however, so small that, even if we combine categories of finance, such as overdrafts and loans, the sample sizes are too small to make the data worth reporting.

8.5 Multivariate Analysis

So far we have considered the relative characteristics of super growth firms on a univariate basis. Many of the variables we have used to categorise these firms are however themselves interrelated. In this section we try to disentangle these effects. We use a multivariate probit regression to do this. The results are shown in Table 8.5.1. The regression is based on the unweighted dataset.

We explain the probability of being classified a super growth firm in terms of size and the selection of core variables used in other chapters in this report including sectoral and regional dummies. Since the employment size of firms is highly skewed we use the logarithm of firm size and exclude zero employee firms, we also allow for the impact of size to be non-linear by including a squared employment size term.

The results may be easily summarised. The pseudo R^2 shows that the equation explains less than 10% of the variance in the probability of being classified in the super growth or other category, which is consistent with a high degree of unpredictability in small business growth rates.

Table 8.5.1 The characteristics of a super growth firm

Probit regression analysis	
Employment(a,b)	
Ln employment value 3 yrs ago	0.46***
Ln employment value 3 yrs ago squared	-0.10***
Industry(b)	
Construction	-0.03
Distribution	0.08
Business services	0.21
Other services	0.08
Agriculture	-0.15
Region(b)	
London	0.05
South East	-0.08
East	0.06
South West	0.03
East Midlands	0.34*
Yorkshire and Humber	-0.13
North West	0.30
North East	0.18
Wales	0.30
Scotland	0.27
N Ireland	0.30
Deprived area	-0.08
Business factors	
Female led	0.18
Old firm	-0.58***
No A' level	0.10
Owner has degree	0.08
Finance qualified	0.21**
Business improver	0.36***
Exporter	0.07
Web for trading	0.05
Accountant advice	-0.01
Other advice	-0.01
Observations	1,286
Chi ²	92.0
Pseudo R ²	0.08

***, **, * indicate significance at the 1%, 5%, 10% levels.

(a) Since current size will be positively related to past growth its use in the regression would lead to an upward bias on the coefficient on size. We use size three years ago to avoid this bias.

(b) Comparison groups are zero employees, Manufacturing & West Midlands

In keeping with our univariate analysis we find that size is positively related to the probability of being a super growth firm. The negative coefficient on the squared size variable implies, however, an inverted U shaped relationship so that beyond some point increased size has a diminishing and ultimately negative impact on growth orientation.

In a multivariate context business age has a negative impact in the sense that businesses over ten years old are less likely to be growth businesses than those aged 2-9 years old (which form the comparator base group). Businesses that have improved their business operations, and those which have a financially qualified manager, are also statistically significantly more likely to be a super growth firm.

In a multivariate context there is no association of growth orientation with advice, whether from accountants or elsewhere, nor with gender. Similarly there is no association between growth orientation and the educational qualifications of owners, or the presence of web based trading, or of exporting.

There are no sectoral effects. Being in the East Midlands has a positive effect on the likelihood of being fast growing (compared to the West Midlands base comparator group). Otherwise regional effects are noticeable for their absence.

Executive Summary

- *This chapter focuses on the characteristics of super growth firms and their access to finance. We define as super growth businesses those that reported that they had experienced turnover growth of 30% or more in each of the previous three years and who also reported that they intended to grow in the next three years. On this basis 13% of firms in the sample can be categorised as super growth businesses.*
- *Super growth firms are less likely to be found in Agriculture and Construction, but these differences are not statistically significant in a multivariate context.*
- *Super growth businesses are as likely to be located in deprived areas as elsewhere; and they are more likely to be limited companies than is the case for the rest of the small business population.*
- *Super growth firms are much more likely to have younger owners with less business experience, but there is no difference in the gender of ownership.*
- *Super growth firms were more likely to be seeking finance than other small businesses (50% against 33%). The median amount of new finance sought was higher in super growers (£30k compared to £17k).*
- *There was no evidence that super growth firms were forced into one type of finance through constraints arising from costs or the likelihood of being turned down for other types of finance.*

- *We explain the probability of being a super growth in terms of size and the selection of core variables including sectoral and regional dummies. We find:*
 - *that size is positively related to the probability of being a super growth firm, although there is evidence that beyond some point increased size has a diminishing and ultimately negative impact on growth orientation;*
 - *similarly, business age has a negative impact in the sense that businesses over ten years old are less likely to be growth businesses than those aged 2-9 years old;*
 - *businesses that have improved their business operations and those which have a financially qualified manager are also statistically significantly more likely to be a super growth firm;*
 - *being in the East Midlands has a positive effect on the likelihood of being fast growing. Otherwise regional effects are noticeable for their absence.*

9 Deprivation

In this chapter we examine the association between the location of a business in a deprived area and its business characteristics and access to finance. In order to classify small businesses in terms of the deprivation of the areas in which they are located, we use the government's Index of Multiple Deprivation. Since the data required for this analysis are not available for Northern Ireland, we exclude it from the analysis in this chapter.

The index is formed from a weighted average of official indicators covering seven deprivation factors. These factors are income deprivation, employment deprivation, health deprivation and disability, education skills and training deprivation, barriers to housing and services, living environment deprivation, and crime.

Each of these factors is measured by a number of separate indicators of deprivation. On the basis of combining the scores on each of the various indicators at each level, a deprivation rank is obtained for each of many thousands of local areas. The most deprived area is ranked 1st, the least deprived area is ranked 33,482nd.

In order to group our firms into more or less deprived areas, we choose to concentrate on the 15% most deprived areas and to compare them with the remaining 85% of areas. 19% of businesses are located in the most deprived areas defined in this way. The remaining 81% are located outside of those areas. An analysis of SME finances in these two broadly defined areas should provide a sharp distinction if one exists.

9.1 Business Characteristics by Degree of Deprivation

It is helpful to begin our analysis by comparing in terms of general business characteristics the small businesses in the most deprived areas and the rest. Table 9.1.1 shows that there are only slight differences in terms of the size distribution of firms.

The table reveals that the most deprived areas have relatively double the proportion of Manufacturing firms and a relatively lower proportion of Agriculture and Wholesale or Retailing firms.

There is very little difference between deprived areas and other areas in terms of the distribution of businesses by legal status, but we do find a somewhat lower proportion of partnerships in deprived areas.

Interestingly, we do not find a lower proportion of super growth firms within the deprived areas despite our prior expectations.

Table 9.1.1: Business characteristics by degree of deprivation

Category	In the 15% most deprived areas	Outside the 15% most deprived areas
All businesses	19%	81%
Number of employees		
0	72%	71%
1-9	23%	25%
10-49	4%	3%
50-249	1%	1%
Turnover(a)		
Less than £50,000	50%	43%
£50,000-£499,999	38%	42%
£500,000-£999,999	5%	5%
£1,000,000+	7%	9%
Industry		
Agriculture	1%	5%
Manufacturing	12%	6%
Construction	24%	21%
Wholesale/retail	10%	14%
Service sectors	53%	54%
Legal status		
Sole trader	59%	57%
Partnership	6%	10%
Limited company	35%	33%
Growth firm(b)		
Super growth	15%	13%
Other	85%	87%

Bases: Businesses in the 15% most deprived areas: n=817,289 (Unweighted: n=558); Businesses outside the 15% most deprived areas: n=3,439,050 (Unweighted: n=1,956)

(a) Bases: All businesses reporting turnover: in the 15% most deprived areas: n=626,263 (Unweighted: n=450); outside the 15% most deprived areas: n=2,784,886 (Unweighted: n=1,576)

(b) Bases: All businesses reporting growth status: in the 15% most deprived areas: n=617,125 (Unweighted: n=460); outside the 15% most deprived areas: n=2,551,970 (Unweighted: n=1,599)

The data in Table 9.1.2 show that the proportion of female led or owned businesses is lower in the deprived areas, but we will assess in Section 9.5 below whether this difference is statistically significant when other factors, such as size and sector, are taken into account.

Businesses inside the deprived areas are relatively less likely to have business owners with a university degree. They are, also, relatively less likely to have business leaders with under one year of experience. This may reflect the age of businesses since it is apparent that firms in the deprived areas do tend to be older compared to businesses outside these areas. Firms in the deprived areas are more likely to have a financially qualified manager, but there is no difference in terms of the age of the principal owner.

Table 9.1.2: Business characteristics by degree of deprivation

Category	In the 15% most deprived areas (a)	Outside the 15% most deprived areas (b)
All businesses	19%	81%
Female leadership		
<50%	77%	72%
=50%	10%	10%
>50%	13%	18%
Female ownership		
<50%	78%	72%
=50%	9%	11%
>50%	13%	18%
Highest academic qualification		
None, GCSE	28%	29%
Other	53%	42%
University degree	19%	29%
Business experience		
<1 year	4%	5%
1-3 years	12%	11%
4-9 years	20%	20%
10+ years	64%	64%
Formally qualified financial manager		
Yes	30%	24%
No	70%	76%
Age of principal owner		
Mean	49	49
Median	48	48
Age of business		
<2 years	14%	18%
2-9 years	38%	36%
10+ years	47%	47%

(a) Base: Businesses in the 15% most deprived areas: n=817,289 (Unweighted: n=558)
(b) Base: Businesses outside the 15% most deprived areas: n=3,439,050 (Unweighted: n=1,956)

Table 9.1.3 extends the analysis of business characteristics to include innovative behaviour, exporting, and business management. The first two rows focus on whether or not businesses either introduced a new product or service in the past three years, or improved an aspect of their business in the past three years. There is no difference between the deprived areas and the rest as regards to introducing a new product or service (14%), but whilst 38% of businesses in the most deprived areas reported improving an aspect of their business in the past three years, 35% did so in the other areas.

In relation to exporting the table shows that firms in the most deprived areas were more likely to be exporting than those in other areas. This may be a reflection of the greater export intensity of the Manufacturing sector which, as we have seen, is more likely to be the sector of businesses in the deprived areas.

The existence of a formal written business plan or of a written HR plan and the use of performance related pay are all relatively greater in the most deprived areas than the rest. Comparisons of businesses, in terms of whether or not websites are used for trading, or total quality management is used reveal no differences. Similarly, there are no differences of importance in plans to sell, pass on or close down the business in the next three years between firms in the most deprived areas and the rest.

Table 9.1.3: Business innovation and strategies by degree of deprivation

Category	In the 15% most deprived areas (a)	Outside the 15% most deprived areas (b)
New product or service in past 3 years	14%	14%
Improved a business aspect in past 3 years	38%	35%
Exporter	11%	8%
Website for trading	34%	35%
Formal written business plan	32%	28%
Written HR plan(c)	27%	20%
Performance related pay(c)	24%	21%
TQM	15%	14%
Plan to sell, pass on or close down in next 3 years	15%	16%

(a) Base: Businesses in the 15% most deprived areas: n=817,289 (Unweighted: n=558); With employees: n=226,410 (Unweighted: n=439)

(b) Base: Businesses outside the 15% most deprived areas: n=3,439,050 (Unweighted: n=1,956); With employees: n=998,887 (Unweighted: n=1,525)

(c) Excluding firms with no employees

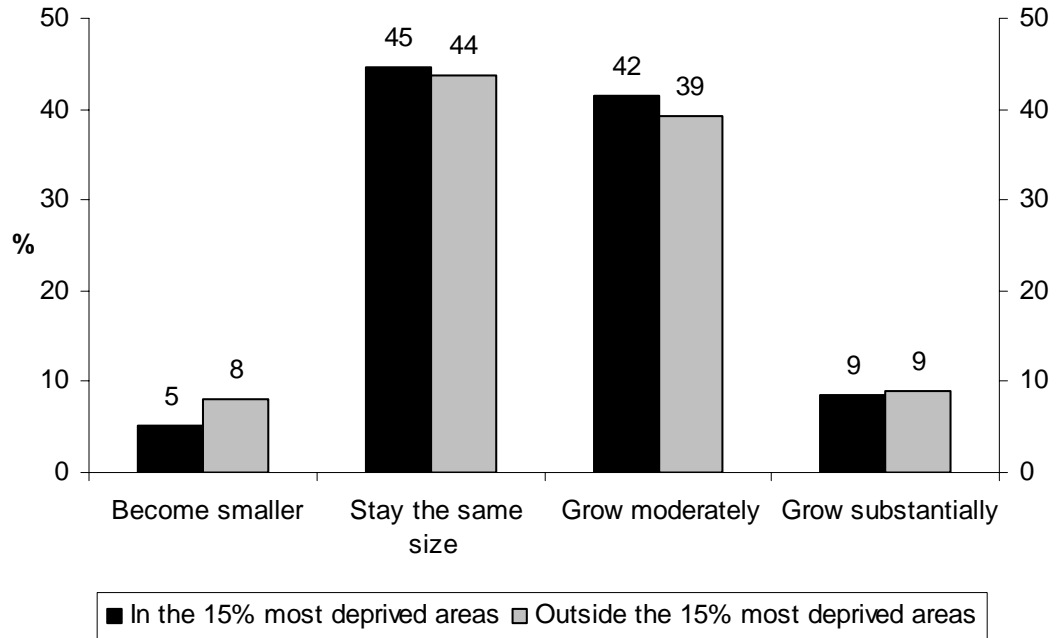
Chart 9.1.1 shows that there were very few differences in terms of growth ambitions between firms in the most deprived areas and those outside those areas. There were a smaller proportion of firms in deprived areas who expressed the growth objective to become smaller and somewhat more (42%) of those in deprived areas had an ambition to grow moderately compared with the percentage of those outside deprived areas who expressed that objective (39%).

It is worth noting that businesses in deprived areas are not reflecting that deprivation in their business characteristics in terms of these measures. In setting their business objectives and carrying out their business operations there is also a strong similarity between firms in the most deprived areas and those outside in terms of the pattern of sources of advice used in relation to financial issues.

Thus Chart 9.1.2 shows that, both inside and outside those areas, no advice or support used was the most frequent response. This was followed by advice received from accountants and then bank managers and friends and business associates. However, the firms in the deprived areas were more likely to have received no advice or support. Thus, 41% of firms in the most deprived areas claimed that they received no advice or support, whereas only 34% of those outside the deprived areas made this response. Firms in deprived areas also tended to make more use of friends and business associates than did firms outside those areas with 11% of deprived firms

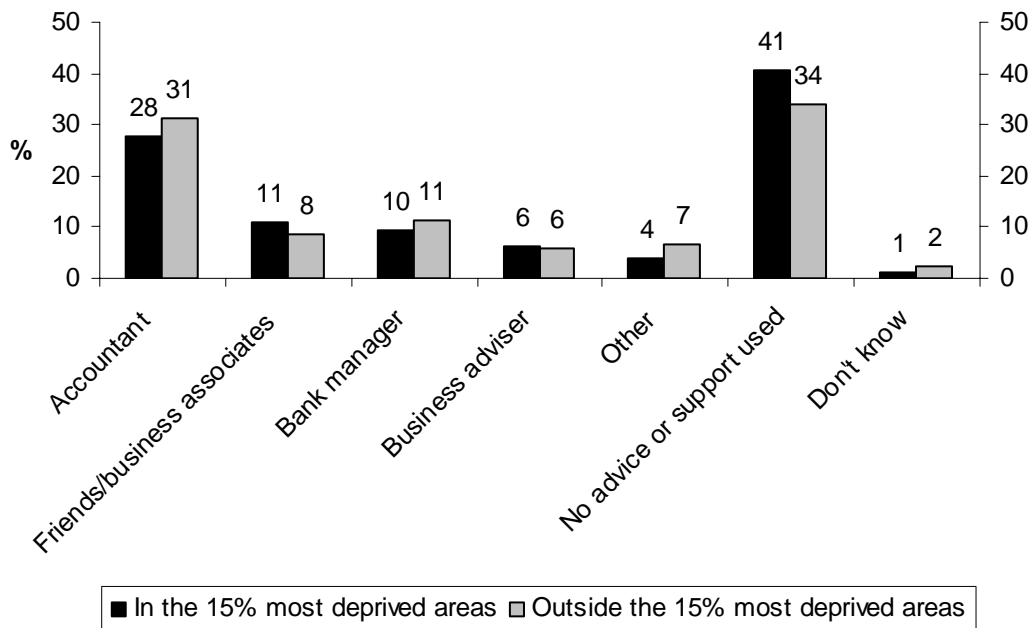
reporting that use of advice and only 8% of firms outside the deprived areas reporting that use of advice.

Chart 9.1.1: Growth objectives over the next three years by degree of deprivation



Bases: Businesses in the 15% most deprived areas: n=817,289 (Unweighted: n=558);
Businesses outside the 15% most deprived areas: n=3,439,050 (Unweighted: n=1,956)

Chart 9.1.2: Sources of financial advice by degree of deprivation



Bases: Businesses in the 15% most deprived areas: n=817,289 (Unweighted: n=558);
Businesses outside the 15% most deprived areas: n=3,439,050 (Unweighted: n=1,956)

The overall picture which emerges is that firms in deprived areas are more likely to rely on friends and to seek no advice than is the case in the firms outside the deprived areas. Thus 52% of firms in deprived areas were either receiving no advice or relying on friends and business associates compared with only 42% of firms outside the deprived areas using these sources. This suggests a reliance on more informal advice, or a complete absence of reliance on advice, in the most deprived areas.

It is worth noting that in answering this question firms were allowed to indicate a wide range of regional and local government support agencies including Business Link, Scottish Enterprise, Invest Northern Ireland, local authorities, chambers of commerce, trade associations, and financial advisers. In the case of firms in deprived areas, the total percentage reporting use of all of these sources together was only 1% and outside the deprived areas was only 3%. This suggests a low degree of penetration on the small business sector by local regional support agencies.

9.2 Banking Relationships and Type of Account Used

In view of the relatively low levels of income and private and social capital in the most deprived areas, it is interesting to examine the extent to which they are served by institutions which are also serving the less deprived areas; and whether the weak economic and social circumstances of these areas leads to differences in the likely lengths of relationships with financial institutions and the types of accounts used.

In fact it appears from Table 9.2.1 that, on most dimensions, there is a close similarity between the kinds of business relationships that firms have with their financial providers in both the most deprived and less deprived areas. Thus, the length of relationship with the main bank and with other providers in addition to the main bank is very similar in the two groups. The same is true of the type of bank account used for the business. The typical length of a relationship with a main bank is twelve years in both cases using the mean and seven years using the median. Similar lengths of time characterise the relationships with other providers in addition to the main bank.

In both the deprived and other areas the vast majority of businesses use a business bank account for their business purposes (82% in the most deprived areas and 85% in the less deprived areas). The main difference between the two areas is reflected in the extent to which the top 4 banks provide the main bank financial services for firms in these areas. Thus, whereas only 69% of businesses in the most deprived areas reported that the top 4 banks supplied their main banking services, the proportion outside those areas was 76%.

This raises interesting questions about the reasons for the relative absence of main bank provision by the top 4 banks in these deprived areas and the nature and identity of the other financial institutions serving businesses' needs in these areas.

Table 9.2.1: Banking relationships and type of account used by degree of deprivation

Category	In the 15% most deprived areas	Outside the 15% most deprived areas
Main bank or financial institution(a)		
Top 4	69%	76%
Other	31%	22%
Don't know	1%	1%
Length of relationship (years)		
with main bank (mean)(b)	12	12
with main bank (median)(b)	7	7
with other providers in addition to main bank (mean)(c)	9	11
with other providers in addition to main bank (median)(c)	7	6
Type of bank account used for the business(d)		
Personal	16%	14%
Business	82%	85%
Don't know	2%	0%

(a) Bases: Businesses reporting on main bank: in the 15% most deprived areas: n=817,289 (Unweighted: n=558); outside the 15% most deprived areas: n=3,439,050 (Unweighted: n=1,956)
(b) Bases: Businesses reporting relationship with main bank: in the 15% most deprived areas: n=801,406 (Unweighted: n=552); outside the 15% most deprived areas: n=3,428,095 (Unweighted: n=1,940)
(c) Bases: Businesses reporting on other providers: in the 15% most deprived areas: n=160,114 (Unweighted: n=220); outside the 15% most deprived areas: n=1,016,061 (Unweighted: n=775)
(d) Bases: Businesses reporting type of account: in the 15% most deprived areas: n=660,525 (Unweighted: n=494); outside the 15% most deprived areas: n=2,924,695 (Unweighted: n=1,717)

Table 9.2.2 looks at another aspect of the awareness of firms of potential sources of assistance for their activities. In this case, the table relates to the awareness and use of capital allowances and tax relief.

The broad picture which emerges is of a similar pattern in the most deprived and other areas for capital allowances for SMEs and R&D tax credits with the most deprived areas reporting slightly lower rates of awareness and use, whereas for the capital allowance for energy-saving technologies there is a slightly higher awareness. Very small proportions of firms in both areas had claimed any of these allowances or tax credits.

It should be noted that the levels of awareness are low. Thus, in the deprived areas only 30% of firms claimed awareness of SME capital allowances, or of capital allowances of energy-saving technologies and only 23% claimed knowledge of R&D tax credits.

However, this may simply reflect the fact that the majority of firms in both deprived and other areas are not making investment of the kinds required to make applications for these kinds of allowances relevant.

Table 9.2.2: Awareness and use of capital allowances and tax relief by degree of deprivation

Category	In the 15% most deprived areas (a)	Outside the 15% most deprived areas (b)
Capital allowances for SMEs		
Awareness	30%	33%
Claimed	5%	5%
Capital allowances for energy saving technologies		
Awareness	30%	27%
Claimed	3%	1%
R&D tax credits		
Awareness	23%	26%
Claimed	1%	1%

(a) Base: Businesses in the 15% most deprived areas: n=817,289 (Unweighted: n=558)
(b) Base: Businesses outside the 15% most deprived areas: n=3,439,050 (Unweighted: n=1,956)

9.3 Access to Finance

Table 9.3.1 sets out a wide range of types of finance and reports the results of asking whether these types of finance had been used in the past three years. It appears that a lower proportion of firms in the deprived areas are in general using every source compared with firms in other areas.

This is particularly the case in relation to credit cards (36% v. 44%), leasing or hire purchase (15% v. 19%), overdraft facilities (36% v. 43%), and current accounts (88% v. 92%). The differences are smaller for deposit accounts (38% v. 41%), loans from friends and family (8% v. 11%); and no difference is found between deprived and other areas for loans and mortgages (both 19%) and loans from shareholders (both 16%).

Given these differences the broad pattern of use of the different types of finance is, however, very similar between the most deprived and other areas. Thus, current accounts, overdrafts and deposit accounts and credit accounts are the dominant of financial products in use.

We can now turn to look in more detail at the different types of finance used. We begin by looking at deposits, overdrafts and loans.

Table 9.3.1: Types of finance used in the past three years by degree of deprivation

Category	In the 15% most deprived areas (a)	Outside the 15% most deprived areas (b)
Current account	88%	92%
Overdraft	36%	43%
Deposit accounts	38%	41%
Grants	5%	4%
Commercial loans/mortgages	19%	19%
Loans from friends and family	8%	11%
Loans from the owners, directors or shareholders	16%	16%
Leasing or hire purchase	15%	19%
Factoring/invoice discounting finance	5%	3%
Credit cards	36%	44%
New equity finance/ issuing shares	2%	1%

(a) Base: Businesses in the 15% most deprived areas: n=817,289 (Unweighted: n=558)
(b) Base: Businesses outside the 15% most deprived areas: n=3,439,050 (Unweighted: n=1,956)

In view of the relatively low levels of financial and social capital in the most deprived areas, one might expect that they would have somewhat lower holdings on deposit, have somewhat higher overdraft facilities, and, because of lower property prices, have somewhat lower loans and mortgages outstanding. One might also expect them to be less able to draw on large sums of money from friends, families, owners, directors or shareholders.

In fact, each of these things is borne out by the data in Table 9.3.2. Thus, the average holdings on deposits, using the mean, were around £77k in the deprived areas compared to around £126k in the other areas. Similarly, overdrafts were running on the mean basis at around £59k in the deprived areas compared to £30k in the other areas.

The average amount outstanding on loans and mortgages, on a mean basis, were £197k in the deprived areas and £320k in the other areas and, finally, the mean average amount outstanding in the form of loans from friends, family, owners, directors or shareholders was around £54k in the deprived areas and around £145k in the other areas. The presence of extreme values means that all of these amounts are much lower when we use the median. In the case of overdrafts the relative position shifts too. On the basis of the more robust median value the most deprived regions are revealed to have lower overdraft limits.

There was virtually no difference in the percentage of overdrafts or loans and mortgages that required security between the two areas. Thus, in terms of overdrafts, 20% required security in the deprived areas and 21% in the other areas and, in relation to loans or mortgages, the percentage in both areas was the same at 56%.

Table 9.3.2: Deposits, overdrafts and loans by degree of deprivation

Category	In the 15% most deprived areas	Outside the 15% most deprived areas
Deposits		
Average amount held (mean)(a)	77,354	126,354
Average amount held (median)(a)	2,500	7,500
Overdraft		
Average overdraft limit (mean)(b)	59,447	29,699
Average overdraft limit (median)(b)	3,000	5,000
% requiring security(c)	20%	21%
% paying arrangement fee(c)	53%	60%
Loans/mortgages		
Average number of loans/mortgages (mean)(d)	2.5	2.1
Average number of loans/mortgages (median)(d)	2.0	1.0
Average amount outstanding (mean)(e)	196,824	319,861
Average amount outstanding (median)(e)	30,000	75,000
% requiring security(f)	56%	56%
% paying arrangement fee(f)	58%	65%
Average length of loan (mean)(g)	11	12
Average length of loan (median)(g)	10	12
% obtained under SFLG scheme(f)	3.4%	1.3%
Loans from friends and family; or owners, directors or shareholders		
Average amount outstanding (mean)(h)	53,767	145,251
Average amount outstanding (median)(h)	2,500	8,000

(a) Bases: Businesses reporting on deposits: in the 15% most deprived areas: n=195,753 (Unweighted: n=209); outside the 15% most deprived areas: n=1,040,966 (Unweighted: n=701)

(b) Bases: Businesses reporting overdraft limits: in the 15% most deprived areas: n=148,784 (Unweighted: n=135); outside the 15% most deprived areas: n=809,656 (Unweighted: n=520)

(c) Bases: Businesses reporting on overdrafts: in the 15% most deprived areas: n=264,321 (Unweighted: n=235); outside the 15% most deprived areas: n=1,264,770 (Unweighted: n=909)

(d) Bases: Businesses reporting no. of loans: in the 15% most deprived areas: n=101,414 (Unweighted: n=125); outside the 15% most deprived areas: n=509,624 (Unweighted: n=447)

(e) Bases: Businesses reporting outstanding loan: in the 15% most deprived areas: n=71,867 (Unweighted: n=97); outside the 15% most deprived areas: n=409,206 (Unweighted: n=353)

(f) Bases: Businesses reporting on loans: in the 15% most deprived areas: n=108,986 (Unweighted: n=136); outside the 15% most deprived areas: n=536,976 (Unweighted: n=492)

(g) Bases: Businesses reporting length of loan: in the 15% most deprived areas: n=84,858 (Unweighted: n=105); outside the 15% most deprived areas: n=477,711 (Unweighted: n=407)

(h) Bases: Businesses reporting on outstanding amount from friends: in the 15% most deprived areas: n=51,627 (Unweighted: n=56); outside the 15% most deprived areas: n=395,540 (Unweighted: n=264)

Arrangement fees tended to be more frequently taken outside of the most deprived areas. Thus, the percentage paying an arrangement fee for overdrafts was only 53% in the deprived areas compared to 60% in the other areas and the arrangement fees

for loans and mortgages were taken in 58% of cases in the deprived areas and 65% of the other areas. The average length of loan was the same in both sets of businesses.

Firms in the most deprived areas tended to obtain a higher percentage of their loans under the small firms loan guarantee scheme (3.4% compared to 1.3%). This would be consistent with lower levels of financial and other capital backing and lower levels of income able to support loan applications of a given quality in the most deprived areas.

If we turn to leasing and hire purchase, a number of differences emerge between the most deprived areas and the rest. Table 9.3.3 shows that leasing is used somewhat more frequently in the most deprived areas (41%) compared to the other areas (37%). The percentages of firms using only hire purchase and using both leasing and hire purchase was the same in both areas at 36% to 37% and 22% respectively.

Focusing first on leasing and HP agreements we find very few differences in the total number of agreements per business in the deprived compared to the other areas. An interesting difference emerges, however, when we look at the total monthly costs of these agreements using medians that remove the effects of outliers. On this basis the total monthly costs of agreements is somewhat lower at £445 than it is in the other areas where the total median monthly costs were £520.

The table also shows that in the case of the largest case of the leasing HP agreements, the average length of time for which they have been held is higher in the most deprived areas and the length of the lease is also longer. Thus, in the case of the length of time for which the largest agreement has been held, 21% of the businesses in the most deprived areas had held it for between four to six years compared to only 8% in the other areas, whilst the largest leasing HP agreement was for a period of five years in 34% of cases in the most deprived areas compared to 25% in the other areas.

The most common length of time for which an agreement had been held and over which a lease was negotiated was in the one to four year range in both the deprived and other areas. Given the relatively low levels of financial and social capital in the least deprived areas it might have been expected that businesses in those areas would be unable to make repayments more frequently than in other areas. In fact, the table shows that this is not the case. The percentage of businesses in the other areas unable to make repayments at least once in the last twelve months was three times that in the deprived areas.

If we now consider the reason for leasing rather than buying goods outright, the reasons are fairly similar in both the deprived and other areas. The most important difference is that in the deprived areas 18% of the businesses gave the reason that they only wanted the asset for a limited period, whereas that was the case for only 9% of businesses in the other areas.

In relation to accelerated capital allowances, about a third of firms in both areas were aware of accelerated capital allowances (see Table 4.5.1 in Chapter 4). However, those who were using leasing or HP finance in the deprived areas were more aware of these allowances (41%). Firms in both areas took them into account when deciding whether to lease or purchase. The proportion doing this was much higher (54%) in the more prosperous areas compared to only 37% of the firms using leasing or HP finance in the deprived areas.

Table 9.3.3: Leasing and HP by degree of deprivation

Category	In the 15% most deprived areas	Outside the 15% most deprived areas
Types used(a)		
Leasing only	41%	37%
Hire purchase only	36%	37%
Both leasing and hire purchase	22%	22%
Leasing/HP agreements		
Total number of agreements (mean)(b)	2.4	2.5
Total number of agreements (median)(b)	1.0	1.0
Total monthly cost of these agreements (mean)(c)	2,795	2,544
Total monthly cost of these agreements (median)(c)	445	520
Reason for leasing rather than buying goods outright(a,d)		
To ease pressure on cash flow	64%	66%
Only want the asset(s) for a limited period	18%	9%
Didn't have any/enough security to obtain a loan to buy the asset	12%	10%
Due to other benefits such as maintenance and replacement of faulty assets	19%	15%
Other reasons	22%	18%
The largest agreement has been held for approximately(a)		
Less than 1 year	23%	20%
1-3 years	51%	67%
4-6 years	21%	8%
7 or more years	3%	3%
The agreement is being leased for(a)		
1-2 years	12%	12%
3-4 years	47%	51%
5 years	34%	25%
6 or more years	3%	6%
Entitled to share of the proceeds from the sale of the assets at the end of the contract	44%	57%
Unable to make repayments at least once in last 12 months	4%	13%
Accelerated capital allowances		
Aware of accelerated capital allowances(e)	41%	32%
Took these into account when deciding whether to lease or purchase fixed assets(f)	37%	54%
<p>(a) Bases: Businesses reporting on leasing in the 15% most deprived areas: n=92,206 (Unweighted: n=176); outside the 15% most deprived areas: n=504,624 (Unweighted: n=622)</p> <p>(b) Bases: Businesses reporting number of leasing agreements in the 15% most deprived areas: n=89,304 (Unweighted: n=162); outside the 15% most deprived areas: n=474,892 (Unweighted: n=566)</p> <p>(c) Bases: Businesses reporting monthly cost of leasing agreements in the 15% most deprived areas: n=87,958 (Unweighted: n=155); outside the 15% most deprived areas: n=445,272 (Unweighted: n=518)</p> <p>(d) Businesses could give more than one reason, hence the answers do not sum to 100%</p> <p>(e) Bases: Awareness of accelerated capital allowances: companies in the 15% most deprived areas: n=47,483 (Unweighted: n=136); companies outside the 15% most deprived areas: n=203,479 (Unweighted: n=435)</p> <p>(f) Bases: Taking awareness of accelerated capital allowances into account: companies in the 15% most deprived areas: n=19,605 (Unweighted: n=74); outside the 15% most deprived areas: n=64,880 (Unweighted: n=217)</p>		

Businesses make extensive use of personal and business credit cards for business purposes. In Table 9.3.4 we compare the characteristics of this credit card use between the deprived and other areas. The proportions using a personal credit card for business use and a business credit card for business use are very similar between firms in the most deprived areas and those outside of it. In the case of personal credit cards 35% of firms in the most deprived areas use them for business purposes compared to 37% in other areas, and the figures for business credit card used were 74% and 71% respectively.

The table also shows that the vast majority of users paid off in full at the end of each month both the amounts on their personal credit card for business use and their business credit card. In the latter case 98% of businesses in the most deprived areas and 94% in the other areas did so. The amounts charged to personal credit cards were somewhat higher in the most deprived areas (£300 compared to £200 looking at the median).

Table 9.3.4: Credit card use by degree of deprivation

Category	In the 15% most deprived areas	Outside the 15% most deprived areas
Personal or business credit card used for business purposes		
Personal credit card(a)	35%	37%
Business credit card(a)	74%	71%
Both personal and business credit cards	9%	9%
Personal credit card use		
Monthly amount charged to personal account (mean)(b)	451	773
Monthly amount charged to personal account (median)(b)	300	200
% paid off in full at the end of each month(c)	88%	86%
The business reimburses the owners for business expenditures made on their personal accounts		
Never(c)	12%	19%
In full and regularly (say once a month in full)(c)	62%	63%
Occasionally or in part(c)	25%	14%
Business credit card use		
Monthly amount charged to business account (mean)(d)	1,270	1,069
Monthly amount charged to business account (median)(d)	375	400
% paid off in full at the end of each month(e)	98%	94%

(a) Bases: Businesses answering credit card use for business purposes: in the 15% most deprived areas: n=255,000 (Unweighted: n=275); outside the 15% most deprived areas: n=1,351,161 (Unweighted: n=964)

(b) Bases: Businesses answering amount charged to personal account: in the 15% most deprived areas: n=56,949 (Unweighted: n=41); outside the 15% most deprived areas: n=447,469 (Unweighted: n=191)

(c) Bases: Businesses answering whether amount charged to personal account paid off in full: in the 15% most deprived areas: n=88,761 (Unweighted: n=49); outside the 15% most deprived areas: n=500,358 (Unweighted: n=232)

(d) Bases: Businesses answering amount charged to business account: in the 15% most deprived areas: n=130,401 (Unweighted: n=212); outside the 15% most deprived areas: n=855,693 (Unweighted: n=704)

(e) Bases: Businesses answering whether amount charged to business account paid off in full: in the 15% most deprived areas: n=188,239 (Unweighted: n=242); outside the 15% most deprived areas: n=965,959 (Unweighted: n=810)

The median amounts charged to business credit cards were more similar (£375 for the most deprived areas, £400 for the rest). In general, the business reimbursed the owners for business expenditure that was made on their personal credit cards in full, and regularly, in two thirds of the cases in both the deprived and other areas. Firms in the other areas were more likely never to reimburse the owner (19% compared to 12%), but were less likely to reimburse occasionally, or only in part (14% compared to 25%).

Apart from the differences in the monthly amount charged to personal accounts for business purposes, the characteristics of the deprived and other areas are very similar.

In order to examine the costs of use of the various forms of overdraft and loan or mortgage finance, firms were asked about their ability to make repayments in the last twelve months, the interest paid on overdrafts and on loans and mortgages, and the proportions of overdrafts and loans and mortgages with fixed as opposed to variable rates.

The result of the analysis of these data by deprivation status is shown in Table 9.3.5. It is important to note that in relation to interest rate payments, the number of responses is low and so the results for those variables should be regarded with some caution.

In general, the table reveals very few differences between the most deprived areas and the rest. In particular, we do not find differences of any note in the proportion of businesses unable to make an overdraft or loan repayment within the last year. For those variables where there is a relatively large number of observations, only two differences emerge.

The first is that whereas 29% of businesses with overdrafts in the most deprived areas had fixed interest rates, the percentage in the other areas was higher at 35%. In relation to interest rates on loans and mortgages, the reverse was true in the sense that a percentage of businesses with variable loans or mortgages was higher at 56% in the other areas than it was in the most deprived areas where 42% had variable rate loans or mortgages.

9.4 Seeking New Finance

It appears, from Table 9.4.1, that firms in the most deprived areas are less likely to be seeking finance than in the other areas. Thus, 29% of firms in the deprived areas sought finance whereas 37% did in the other areas. There was no difference in firms in the deprived and other areas in terms of the extent of discouragement from seeking finance, or seeking finance because it was not needed, or being partially, or completely, rejected when applying for finance. However, firms in deprived areas were less likely to have been rejected outright when applying (7% against 12%).

Since we saw earlier in this chapter that there was little difference in terms of the growth objectives or growth performance of businesses in the two areas, the difference in the percentages seeking finance might relate to differences in the profitability, or internal cash-flows, or access to other sources of capital than those available in capital markets. This requires further research to untangle.

Table 9.3.5: Repayments, fixed /variable interest rate by degree of deprivation

Category	Deprived areas	Other areas
Unable to make repayments in last 12 months		
Overdraft(a)	31%	29%
Loan/mortgage(b)	11%	11%
Interest on overdraft		
% with fixed overdrafts(a)	29%	35%
Average fixed rate(mean)(c)	4.8%	4.6%
Average fixed rate(median)(c)	5.0%	5.0%
% with variable overdrafts(a)	49%	47%
Average margin above base rate(mean)(d)	2.5%	2.4%
Average margin above base rate(median)(d)	1.6%	1.6%
Interest on loan/mortgage		
% with fixed loans/mortgages(b)	40%	40%
Average fixed rate(mean)(e)	5.1%	5.8%
Average fixed rate(median)(e)	6.2%	6.0%
% with variable loans/mortgages(b)	42%	56%
Average margin above base rate(mean)(f)	2.0%	2.8%
Average margin above base rate(median)(f)	1.0%	3.0%

(a) Bases: Businesses reporting on overdrafts: in the 15% most deprived areas: n=264,322 (Unweighted: n=235); outside the 15% most deprived areas: n=1,264,771 (Unweighted: n=909)

(b) Bases: Businesses reporting on loans/mortgages: in the 15% most deprived areas: n=108,987 (Unweighted: n=136); outside the 15% most deprived areas: n=536,976 (Unweighted: n=492)

(c) Bases: Businesses reporting on fixed rate overdraft: in the 15% most deprived areas: n=42,823 (Unweighted: n=53); outside the 15% most deprived areas: n=256,943 (Unweighted: n=207)

(d) Bases: Businesses reporting on variable rate overdraft: in the 15% most deprived areas: n=124,613 (Unweighted: n=97); outside the 15% most deprived areas: n=414,226 (Unweighted: n=384)

(e) Bases: Businesses reporting on fixed rate loan: in the 15% most deprived areas: n=33,337 (Unweighted: n=42); outside the 15% most deprived areas: n=152,928 (Unweighted: n=144)

(f) Bases: Businesses reporting on variable rate loan: in the 15% most deprived areas: n=35,416 (Unweighted: n=49); outside the 15% most deprived areas: n=244,826 (Unweighted: n=210)

Table 9.4.1: New finance sought, rejection and discouragement by deprivation

Category	In the 15% most deprived areas	Outside the 15% most deprived areas
Sought finance(a)	29%	37%
Discouraged from seeking finance(b)	3%	5%
Did not seek finance as it was not needed(b)	63%	61%
Partially rejected when applying(c)	17%	17%
Rejected outright when applying(c)	7%	12%
Partially rejected and/or rejected outright when applying(c)	24%	30%

(a) Base: Businesses in the 15% most deprived areas: n=817,289 (Unweighted: n=558)

(b) Base: All businesses not seeking finance: in the 15% most deprived areas: n=581,940 (Unweighted: n=293); outside the 15% most deprived areas: n=2,151,285 (Unweighted: n=1,007)

(c) Base: All businesses seeking finance: in the 15% most deprived areas: n=235,350 (Unweighted: n=265); outside the 15% most deprived areas: n=1,287,764 (Unweighted: n=949)

For those firms seeking finance the two most important sources are revealed in Table 9.4.2 to be overdraft finance and term loans or mortgages. In the case of overdrafts similar percentages of businesses sought this use of finance in both the most deprived and other areas. More firms, however, in the deprived areas (51%) sought term loans or mortgages compared to other areas (37%). Leasing or hire purchase finance was somewhat more frequently sought in the other areas. Factoring/invoice discounting finance and credit cards were used to a similar degree in the most deprived and other areas with factoring/invoice discounting finance being used by a very small proportion of firms in both cases.

Table 9.4.2: Types of finance sought by degree of deprivation (Businesses seeking finance only)

Category	In the 15% most deprived areas (a)	Outside the 15% most deprived areas (b)
Type of finance		
Overdraft	56%	56%
Term loan/mortgage	51%	37%
Leasing or hire purchase	29%	33%
Factoring/invoice discounting finance	5%	3%
Credit cards	34%	36%
Equity finance/issuing shares	4%	1%

(a) Base: All businesses seeking finance in the 15% most deprived areas: n=235,350 (Unweighted: n=265)

(b) Base: All businesses seeking finance outside the 15% most deprived areas: n=1,287,764 (Unweighted: n=949)

The amount of finance sought differs between areas. This is revealed in Table 9.4.3 which shows that the median that firms in the deprived areas were seeking was £20k compared to around £12k sought in the other areas. This may be related to the fact that the most deprived areas have both more larger, and more manufacturing, firms.

Table 9.4.3: Amount of finance sought and % obtained by degree of deprivation

Category	In the 15% most deprived areas (a)	Outside the 15% most deprived areas (b)
Average amount sought(£)(a)		
Mean	164,543	227,077
Median	20,000	12,000
% obtained(b)		
Obtained 100%	67%	72%
Obtained <100%	24%	12%
Obtained nothing	9%	16%
Average % obtained(b)		
Mean	76%	79%

(a) Bases: All businesses reporting amount sought: In the 15% most deprived areas: n=126,460 (Unweighted: n=168); Outside the 15% most deprived areas: n=914,959 (Unweighted: n=670)

(b) Bases: All businesses reporting % obtained: In the 15% most deprived areas: n=204,788 (Unweighted: n=236); Outside the 15% most deprived areas: n=1,176,725 (Unweighted: n=860)

Turning to another measure of success we find that firms in both sets of areas obtain over 75% of what they seek. Firms in the most deprived areas are, however, both less likely to receive nothing (9% compared to 16%) and more likely to get only part of what they seek (24% compared to 12%). As a result, their mean percentage obtained is a bit lower (76% compared to 79%).

It is possible that rejection and reluctance may vary across areas by type of finance sought. Table 9.4.4 sets out an analysis of these issues. In this table we define the reluctant as those not seeking finance, but who did not say that it was because they did not need it, and express these as a percentage of those seeking finance plus those that were reluctant (i.e. as a percentage of all those that did need this sort of finance).

Table 9.4.4: Rejections and discouragement by type of finance and degree of deprivation

Type of finance	Partial or outright rejection	Reluctant(a)
Any form of finance(b)		
In the 15% most deprived areas	24%	37%
Outside the 15% most deprived areas	30%	39%
Overdraft(c)		
In the 15% most deprived areas	16%	51%
Outside the 15% most deprived areas	27%	48%
Term loan(d)		
In the 15% most deprived areas	14%	56%
Outside the 15% most deprived areas	15%	62%
Leasing/HP(e)		
In the 15% most deprived areas	23%	75%
Outside the 15% most deprived areas	10%	63%
Credit cards(f)		
In the 15% most deprived areas	16%	-
Outside the 15% most deprived areas	33%	-

(a) Businesses are defined as reluctant if they did not seek any type of finance and they stated that they did not seek finance because they thought they would be turned down, or they thought it would be too expensive, or time consuming, or that they preferred not to borrow, or wished to avoid giving up control of their business, or that they did not know how to go about getting the type of finance.

(b) Base: All firms seeking finance: 15% deprivation: n=235,350 (Unweighted: n=265); rest: n=1,287,764 (Unweighted: n=949); seeking and reluctant: 15% deprivation: n=581,940 (Unweighted: n=293); rest: n=2,151,285 (Unweighted: n=1,007)

(c) Base: All firms seeking an overdraft: 15% deprivation: n=131,904 (Unweighted: n=135); rest: n=719,319 (Unweighted: n=507); seeking and reluctant: 15% deprivation: n=267,958 (Unweighted: n=215); rest: n=1,393,051 (Unweighted: n=775)

(d) Base: All firms seeking a term loan: 15% deprivation: n=119,000 (Unweighted: n=107); rest: n=474,279 (Unweighted: n=326); seeking and reluctant: 15% deprivation: n=271,465 (Unweighted: n=199); rest: n=1,242,908 (Unweighted: n=659)

(e) Base: All firms seeking leasing/HP: 15% deprivation: n=68,867 (Unweighted: n=140); rest: n=426,820 (Unweighted: n=494); seeking and reluctant: 15% deprivation: n=273,103 (Unweighted: n=223); rest: n=1,164,746 (Unweighted: n=771)

(f) Base: All firms seeking credit card finance: 15% deprivation: n=80,520 (Unweighted: n=104); rest: n=468,925 (Unweighted: n=335)

If we deal first of all with reluctance, we see that in terms of any form of finance the reluctance rate is roughly the same in both areas at 37% or 39% of those needing finance. Firms in deprived areas were somewhat more likely to be reluctant to apply for overdrafts and this may reflect the weaker financial position of businesses in those areas in the availability of collateral, or personal incomes. Equally, firms in the most deprived areas were less likely to be reluctant to apply for term loans, but they were much more likely to be reluctant to apply for leasing or HP. These findings, however, would require further analysis to establish whether the differences are significant.

If we turn to rejection we find that firms in the deprived areas were less likely to suffer outright or partial rejection overall (24% compared with 30%). There are some differences across the types of finance. Thus firms in deprived areas were more likely to suffer rejection for leasing or HP finance (23% against 10%), but less likely to be rejected for overdrafts (16% against 27%), and credit cards (16% against 33%). Firms in the deprived areas fared no differently from firms in other areas for term loans.

9.5 Multivariate Analysis

In this section we draw together a range of factors that may help us to characterise firms in the most deprived areas compared to other firms. The multivariate analysis is based on the unweighted data and allows us to take into effect the interaction between possible characteristics which, taken individually, may appear to characterise firms in deprived areas, but do so simply because of their correlation with other variables.

Our results are shown in Table 9.5.1. There are four separate probit regressions estimated in the table. These differ in that each successive regression includes a different characteristic relating to access to finance. Thus the first equation includes, in addition to our normal standard variables, the data on whether or not a business sought finance. In the second equation we include, for those that sought finance, whether they suffered partial, or outright, rejection. In the third we consider whether or not the firm was reluctant. Finally in the fourth regression we consider whether not needing finance is a deprived area business characteristic. It turns out that none of these individual variables are statistically significant. We therefore conclude that differences in seeking and obtaining finance do not differentiate firms in the deprived areas compared to firms in other areas.

There is some slight variation in the significance of other individual variables across the regressions taken as a whole, but a number of robust conclusions can be drawn. The first is that there is no statistically significant size effect when we compare firms in the most deprived with other areas.

There are, however, some important sectoral effects. The coefficients on the industry variables reflect the extent to which an area has more or less of a given sector compared to Manufacturing. The negative coefficients on Construction, Business services, Other services and Agriculture all indicate that firms in the most deprived areas are more likely to be in Manufacturing than in these sectors. The most persistently significant coefficient relates to Agriculture that is clearly in this sense a characteristic of the less deprived areas. Construction also is always negative, though less statistically significant.

Table 9.5.1: Multivariate analysis of factors affecting location in deprived areas

Probit regression analysis		Location in the 15% most deprived areas			
Number of employees(a)					
1-9	-0.09	0.10	-0.10	-0.11	
10-49	0.05	0.22	0.03	0.02	
50-249	0.01	0.07	-0.01	-0.02	
Industry(a)					
Construction	-0.09	-0.36*	-0.09	-0.08	
Distribution	-0.09	0.02	-0.09	-0.09	
Business Services	-0.19	-0.15	-0.18	-0.18	
Other services	-0.16	-0.20	-0.15	-0.15	
Agriculture	-0.76***	-1.01***	-0.76***	-0.76***	
Region(a)					
London	0.06	0.04	0.07	0.06	
South East	-0.83***	-0.87***	-0.83***	-0.84***	
East	-0.33**	-0.25	-0.34**	-0.34**	
South West	-0.46***	-0.41*	-0.45***	-0.46***	
East Midlands	-0.03	-0.08	-0.03	-0.03	
Yorkshire and Humber	0.51***	0.38*	0.51***	0.51***	
North West	0.46***	0.69***	0.46***	0.46***	
North East	0.64***	0.74***	0.65***	0.65***	
Wales	0.45***	0.28	0.46***	0.45***	
Scotland	0.53***	0.57***	0.54***	0.53***	
Business factors					
Female led	-0.03	0.00	-0.03	-0.02	
New firm	-0.02	0.20	-0.02	-0.03	
Old firm	0.03	0.22*	0.03	0.03	
No A' level	-0.07	0.10	-0.07	-0.07	
Owner has degree	-0.09	-0.02	-0.09	-0.09	
Finance qualified	0.17**	0.21**	0.17**	0.16**	
Business improver	0.00	-0.16	-0.01	-0.01	
Exporter	0.02	0.02	0.02	0.03	
Web for trading	0.09	0.23**	0.08	0.08	
Accountant advice	-0.00	0.08	-0.00	-0.01	
Other advice	0.09	0.24*	0.09	0.08	
Finance					
Sought finance	-0.09				
Partial or outright rejection		-0.19			
Reluctant			0.12		
Did not need finance				-0.00	
Observations	1,958	934	1,958	1,958	
Chi ²	204.1	124.4	206.1	202.9	
Pseudo R ²	0.10	0.13	0.10	0.10	

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

The regional patterns are also robust. In this case the comparator region is the West Midlands. Thus we find, unsurprisingly, that the South East, the South West and to a lesser extent the East all have a lower likelihood of being associated with firms in deprived areas. Equally we find that the North West, the North East, Scotland, Yorkshire and the Humber always have positive coefficients which are usually statistically significantly different from zero indicating that they are more associated with having firms in deprived areas than the West Midlands.

If we now focus on business factors, very few significant differences are found. It appears that firms in the deprived areas are more likely to have financially qualified managers and, for those seeking finance, are also more likely to use the web for trading and to be seeking advice.

Executive Summary

- *This chapter examines the association between the location of a business in a deprived area and its business characteristics and access to finance. To group our firms into more or less deprived areas, we choose to concentrate on the 15% most deprived areas and compare them with the remaining areas. 19% of businesses are located in the most deprived areas defined in this way.*
- *There is a close similarity between the kinds of business relationships that firms have with their financial providers in both areas.*
- *60% of businesses in the deprived areas reported that the top 4 banks supplied their main banking services, but the proportion outside those areas was 71%.*
- *Firms in the most deprived areas are in general using less of nearly every source of finance.*
- *The average holdings on deposits and the level of overdrafts are lower in the deprived areas.*
- *There was virtually no difference in the percentage of overdrafts or loans and mortgages that required security between the two areas. Arrangement fees tended to be paid less often in the most deprived areas. The average length of loan was the same in both sets of businesses.*
- *Firms in the most deprived areas tended to obtain a higher percentage of their loans under the small firms loan guarantee scheme (3.4% compared to 1.3%).*
- *Firms in the most deprived areas are less likely to be seeking finance than in the other areas. Thus, 29% in the deprived areas sought finance whereas 37% did in the other areas.*

- *For those firms seeking finance the two most important sources are overdraft finance and term loans or mortgages. In the case of overdrafts similar percentages of businesses in both areas sought this. A higher proportion of finance seekers in deprived areas sought term loans and mortgages and new equity finance than in other areas; but the reverse is found for hire purchase and leasing.*
- *In terms of any form of finance the reluctance rate is roughly the same in both areas at 37% or 39% of those needing finance. Firms in deprived areas were somewhat more likely to be reluctant to apply for overdraft, or leasing and HP finance, but less likely to be reluctant to apply for term loans.*
- *Firms in the deprived areas were less likely to suffer outright or partial rejection overall (24% compared with 30%). There are some differences across the types of finance. Thus firms in deprived areas were more likely to suffer rejection for leasing or HP finance (23% against 10%), but less likely to be rejected for overdrafts (16% against 27%), and credit cards (16% against 33%).*
- *Using multivariate analysis to take account of the interaction between characteristics we find:*
 - *no differences in seeking and obtaining finance between firms in the deprived areas compared to firms in other areas;*
 - *no statistically significant size effect when we compare firms in the most deprived with other areas;*
 - *firms in the most deprived areas are more likely to be in Manufacturing than in other sectors;*
 - *firms in the deprived areas are more likely to have financially qualified managers and, for those seeking finance, are also more likely to use the web for trading and to be seeking advice.*

10 Switching Banks

In this chapter we are concerned with the issue of switching by SMEs of their main financial business from one bank to another. This topic has exercised policy makers for a number of reasons. In relation to the analysis of the nature of competition in the supply of banking services, it has been argued that competition will be enhanced by ease of switching when firms are dissatisfied with the services they have been provided by their existing main bank (Competition Commission, 2002; Cruickshank, 2000). It is known that in practice switching rates have been low. Thus, the Cruickshank report estimated that 3% to 4% per annum of accounts were switched between main banks. By itself this does not mean that there is a restriction on switching.

What is at issue is the reasons for the low rates of switching. It is possible to argue that the existence of a longer term relationship between a business and its main bank may encourage a freer flow of information and enhanced business support by the bank through a better informed funding relationship. Hence, low switching represents satisfaction. On the other hand, to the extent that dissatisfied firms are reluctant to switch because of the need to build up relationships with a new main bank, or because there are obstacles to switching in terms of costs, or bureaucracy of the processes involved, then lower rates of switching may be an indication not of satisfaction, but of an inability, or unwillingness, to do anything about dissatisfaction.

In this chapter we provide evidence on the nature and extent of switching and also look at the reasons for switching and the ease of switching.

10.1 The Extent of Switching

It is possible on the basis of the survey responses to consider four aspects of switching activity. First, we may consider the percentage of firms who did in fact switch main business banks in the last year. We can also look at those who have started using another provider for some of their financial services alongside their main bank, or who have moved some existing businesses from a main bank to another financial provider.

These three changes of banking are not mutually exclusive and a firm may have done all three of them. Finally, we can look at the proportion of those that did not make any of these changes but have considered changing banks, or moving some part of their business away to another financial provider or bank.

Table 10.1.1 provides an overall summary of these aspects of switching. The first two rows of the table provide an overall comparison of our results with those in the 2004 survey. Comparable data is available only for those who switched main business banks in the last year. In 2007 4% of the businesses switched main bank compared to 2% in 2004.

This comparison must, however, be considered as a very rough one, since the businesses surveyed in 2007 are not the same ones surveyed in 2004 and there may be some differences in the nature of the firms responding which requires multivariate analysis before deducing that switching rates have increased significantly.

Table 10.1.1: Switching main business bank – Status

Category	Switched main business bank in last year	Moved some existing business from your main bank to another financial provider	Started using another provider for some new financial services alongside main bank	Have considered changing banks or using another bank for some services
All businesses 2004	2%	-	-	-
All businesses 2007	4%	4%	6%	17%
Number of employees				
0	4%	4%	5%	17%
1-9	4%	6%	9%	19%
10-49	5%	4%	9%	17%
50-249	7%	5%	11%	18%
Turnover(a)				
Less than £50,000	5%	3%	6%	12%
£50,000-£499,999	2%	5%	8%	23%
£500,000-£999,999	3%	11%	10%	22%
£1,000,000+	4%	5%	7%	15%
Legal status				
Sole trader	5%	4%	5%	18%
Partnership	2%	3%	6%	10%
Limited company	3%	5%	8%	18%
Age of business				
<2 yrs	7%	2%	5%	23%
2-9 yrs	4%	3%	8%	22%
10+ yrs	2%	6%	5%	17%
Industry				
Agriculture	7%	1%	4%	12%
Manufacturing	7%	5%	6%	22%
Construction	3%	3%	5%	16%
Wholesale/retail	3%	3%	7%	21%
Service sectors	4%	5%	7%	16%

Bases: All businesses 2004: n=3,239,060 (Unweighted: n=2,248);
All businesses 2007: n=4,256,339 (Unweighted: n=2,514)
(a) All businesses reporting turnover: n=3,411,149 (Unweighted: n=2,026)

For 2007 the table reveals that although a relatively small proportion (4%) of firms have actually switched their main business bank, or have moved existing business from their main bank to another financial provider (4%), or have started using another provider for some of their services (6%), a much higher proportion (17%) have considered changing banks, or switching part of their business.

The likelihood of actually switching main business bank varies by type of business. The first column of Table 10.1.1 shows that larger firms in terms of employment are somewhat more likely to have switched main business bank. This result holds for size in terms of employment, but not for firms when ranked by turnover. In the case of turnover, the smallest firms with less than £50k of turnover and the largest firms with over £1m of turnover are more likely to have switched main business bank than those in-between.

Sole traders were somewhat more likely to switch main banks than other legal statuses of business. The same is true of young businesses. In terms of sectors, it appears that firms in Agriculture and Manufacturing were more likely to switch main banks with 7% of the firms in these two sectors having done so, compared to 4% for the population as a whole.

If we turn to the next two columns, which relate to actual movements of some services away from the main bank, it simplifies analysis to consider the two columns together. When this is done, one or two notable results emerge. Thus, it appears that in terms of size those firms in the turnover bracket £500k to less than £1m were much more likely to have gone in for some partial switching of their business away from their main bank with 10% starting to use another provider for some financial services and 11% having moved some existing business away from their main bank to another financial provider. On the same basis companies were more likely to be making these moves than were either sole traders or partnerships.

When we look at the final column showing those who have considered changing banks, or switching some of their business, the patterns in the relationship to employment and turnover size are somewhat different. Such consideration varies very little by size of the firm in terms of employment. However, when we consider turnover size, in contrast to the proportion switching main business banks that were highest in the smallest and largest size classes, the proportions considering changing their main banks were much higher in the two middle-sized classes. Thus, 23% of firms in the £50k-£500k turnover bracket considered changing their banks, and 22% of those between £500k and less than £1m did so. These are substantially higher than the rates reported in the smallest and largest turnover size classes.

The industrial patterns also show some differences. In the case of considering rather than actually switching, whilst Manufacturing is high on both counts, Distribution is much higher in terms of considering changing banking provision compared to other sectors, than in terms of actually changing accounts.

In addition, Table 10.1.1 shows that younger firms were more likely to have switched their main bank and to have considered changing their banks or switching some business.

Tables 10.1.2 and 10.1.3 continue the analysis of switching in terms of the nature of the business owner and the relative deprivation of the area in which the business is established.

In terms of switching main business there are few differences between the categories shown in either table. It appears that firms in deprived areas were less likely to have considered changing banks than firms in other areas. Worth noting is the fact that firms where the principal owner, or lead partner, has ten or more years of experience were about half as likely to switch banks as firms with less experienced leaders (3% compared with 5% to 6%). On the other hand those businesses with a qualified

financial manager were more likely to have changed (5% compared with 2%), as were super growers (5% compared with 3%).

Table 10.1.2: Switching main business bank - Status

Category	Switched main business bank in last year	Moved some existing business from your main bank to another financial provider	Started using another provider for some new financial services alongside main bank	Have considered changing banks or using another bank for some services
Female leadership				
<50%	4%	4%	7%	18%
=50%	3%	6%	7%	14%
>50%	5%	3%	6%	18%
Female ownership				
<50%	4%	4%	6%	18%
=50%	2%	5%	8%	13%
>50%	5%	3%	8%	17%
Deprivation (15%)				
Deprived area	2%	2%	7%	12%
Other	4%	5%	6%	21%
Business experience				
<1 year	5%	4%	4%	21%
1-3 years	6%	2%	8%	18%
4-9 years	6%	5%	6%	22%
10+ years	3%	4%	6%	15%

Bases: All businesses: n=4,256,339 (Unweighted: n=2,514)

It is helpful, once again, to consider the next two columns together in both Tables 10.1.2 and 10.1.3 to pick out any differences in terms of small firms moving part of their business. On this basis we find that firms with a qualified financial manager were less likely than other businesses to have added another financial provider alongside their main bank (6% compared with 10%), but we have seen that they were more likely to have changed their main bank. All the other differences are quite small.

Finally we examine the proportions considering changing some aspect of their banking provision. Again, we find no gender differences here, but those in deprived areas were less likely to have considered this (12% compared with 21% in other areas). Possession of a university degree leads firms to be predisposed to considering changing, although they are no more likely to have actually switched. Those firms with a qualified financial manager switched banks at a rate of 5% per year compared to 2% for other firms and that may reflect a greater capacity to recognise the potential value of changing and handle the change itself. Similarly, firms with advice were more likely to have considered changing banking provision (19% compared with 14%).

Finally it is worth noting that super growth firms not only had a higher rate of switching compared to the rest of the business population, but were also more likely to have considered changing banking provision (24% compared to 15%). It is worth speculating as to whether this is connected with the greater likelihood of these firms experiencing somewhat higher rates of partial or complete rejection of their application for finance that we noted in Chapter 8.

Table 10.1.3: Switching main business bank - Status

Category	Switched main business bank in last year	Moved some existing business from your main bank to another financial provider	Started using another provider for some new financial services alongside main bank	Have considered changing banks or using another bank for some services
Highest academic qualification				
None, GCSE	4%	4%	4%	16%
Other	4%	5%	8%	14%
University degree	4%	4%	7%	25%
Business advice				
No advice	4%	4%	6%	14%
Advice	4%	4%	7%	19%
Formally qualified or trained financial manager				
Yes	5%	4%	6%	21%
No	2%	5%	10%	17%
Growth firm(a)				
Super growth	5%	6%	7%	24%
Other	3%	5%	7%	15%

Bases: All businesses: n=4,256,339 (Unweighted: n=2,514)
(a) All businesses reporting growth status: n=3,169,095 (Unweighted: n=2,059)

10.2 Relationship with Current Bank and Possible Changes in the Future

So far we have considered past behaviour. Firms were also asked whether they were unlikely to change banks in the foreseeable future, whether they would consider changing if approached and finally whether they were currently considering changing their bank. The question was asked so that these answers are mutually exclusive, but they were allowed to answer 'Don't know', so the answers do not sum to 100%. The results are shown in Table 10.2.1.

The vast majority of businesses think it is unlikely that they will change banks in the foreseeable future. Over two thirds of firms feel this way. Just over a quarter would consider changing banks if they were approached and only 6% are considering

changing banks which is of the same order of magnitude as actually switched main banks in the recent past.

Table 10.2.1: Relationship with current bank

Category	Unlikely to change banks in foreseeable future	Would consider changing banks if approached	Are considering changing banks
All businesses 2004		29%	7%
All businesses 2007	67%	27%	6%
Number of employees			
0	68%	26%	7%
1-9	63%	30%	6%
10-49	69%	24%	6%
50-249	70%	25%	5%
Turnover(a)			
Less than £50,000	69%	26%	5%
£50,000-£499,999	62%	30%	8%
£500,000-£999,999	53%	36%	11%
£1,000,000+	69%	23%	8%
Legal status			
Sole trader	66%	27%	7%
Partnership	67%	28%	6%
Limited company	68%	26%	6%
Age of business			
<2 yrs	62%	30%	8%
2-9 yrs	63%	32%	5%
10+ yrs	71%	22%	7%
Industry			
Agriculture	72%	22%	6%
Manufacturing	57%	29%	14%
Construction	71%	24%	5%
Wholesale/retail	57%	33%	11%
Service sectors	68%	27%	5%
Female leadership			
<50%	64%	29%	6%
=50%	71%	24%	5%
>50%	73%	19%	8%

Bases: All businesses 2004: n=3,230,060 (Unweighted: n=2,469);

All businesses 2007: n=4,171,199 (Unweighted: n=2,469)

(a) All businesses reporting turnover: n=3,348,278 (Unweighted: n=1,996)

There seems to have been little change between 2004 and 2007 in the percentages of businesses considering changing banks. There is a remarkable consistency in the

proportion of firms saying they would be unlikely to change banks across the various categories in Table 10.2.1 with most of the values ranging between 65% and 73%.

It appears that middle sized firms in the £500,000 to less than £1,000,000 turnover category are more likely to be wanting to change banks. Similarly, firms led by men are more likely to foresee changing banks than are those jointly led by men and women or by women alone. Firms that are over ten years old are less likely to change banks in the foreseeable future than is the case for younger firms whilst fast-growth firms are more likely to be thinking about changing banks in the foreseeable future.

Middle-sized firms in terms of turnover are more likely to be considering changing banks. They are, also, more likely to consider changing if they were approached.

Businesses that are led, or owned, by women are less likely to consider changing banks, if approached. In the case of ownership the table shows, for instance, that where females represent more than 50% of the owners, only 17% would consider changing banks, if approached, compared to 29% of firms where men composed more than 50% of the owners. Slower growing businesses are less likely to consider changing.

Table 10.2.1 cont.: Relationship with current bank

Category	Unlikely to change banks in foreseeable future	Would consider changing banks if approached	Are considering changing banks
Female ownership			
<50%	65%	29%	6%
=50%	71%	25%	4%
>50%	73%	17%	10%
Deprivation (15%)			
Deprived area	71%	25%	4%
Other	66%	27%	7%
Growth firm(b)			
Super growth	51%	38%	10%
Other	70%	24%	5%

Bases: All businesses 2007: n=4,171,199 (Unweighted: n=2,469)

(b) All businesses reporting growth status: n=3,125,472 (Unweighted: n=2,028)

10.3 Ease of Switching Accounts

Businesses were asked to rank the ease of switching accounts on a scale from 1 to 10 (with 1 being extremely difficult and 10 being extremely easy). In interpreting the results in Table 10.3.1 it is important to note that only the firms who switched answered this question. There were, however, only 113 of them and as a result the sample sizes are small when the firms are divided into the various sub-categories.

Table 10.3.1: Ease of switching account on scale of 1-10

Category 1-extremely difficult 10-extremely easy	1-4	5-7	8-10	Mean
All businesses	11%	32%	57%	7.5
Number of employees				
0	10%	35%	56%	7.5
1-9	13%	21%	66%	7.8
10-49	8%	45%	46%	6.7
50-249	15%	60%	25%	6.2
Turnover(a)				
Less than £50,000	15%	43%	42%	6.8
£50,000-£499,999	9%	12%	79%	8.3
£500,000-£999,999	7%	89%	4%	5.5
£1,000,000+	4%	33%	64%	8.3
Legal status				
Sole trader	12%	31%	56%	7.6
Partnership	17%	5%	78%	7.4
Limited company	4%	40%	56%	7.4
Age of business				
<2 yrs	9%	23%	68%	8.3
2-9 yrs	8%	33%	59%	7.5
10+ yrs	15%	41%	44%	6.8
Industry				
Agriculture	22%	30%	48%	7.0
Manufacturing	19%	47%	34%	7.0
Construction	0%	64%	36%	6.8
Wholesale/retail	2%	14%	84%	9.2
Service sectors	12%	24%	64%	7.6
Female leadership				
<50%	10%	40%	50%	7.1
=50%	13%	12%	75%	7.8
>50%	11%	15%	74%	8.7
Female ownership				
<50%	11%	38%	51%	7.1
=50%	0%	23%	77%	8.4
>50%	12%	16%	72%	8.7

Bases: All those who changed bank: n=159,709 (Unweighted: n=113)

(a) All businesses who changed bank reporting turnover: n=126,068 (Unweighted: n=88)

The most important point to note is that taking businesses as a whole, 57% of those who switched found the process to be extremely easy (2004 61%) and a further 32%

scored in the easy ranges of five to seven (2004 24%). Only 11% thought the process was extremely difficult (2004 15%).

Identifying differences between types of firm is difficult because of the small sample sizes and the likelihood that differences in the percentages will occur because of chance. Nonetheless, a few observations may be made. The first is that in relation to turnover size it appears that those with turnover of less than £50k were somewhat more likely to find the process difficult. But even here 42% of firms of less than £50k worth of turnover and 79% of firms with turnover between £50k and £500k worth of turnover found the process very or extremely easy. In terms of deprivation the ease of switching accounts was much the same, if not higher, than elsewhere. These comments, however, may be artefacts of the small sample sizes and should be interpreted with extreme caution.

Table 10.3.1 cont: Ease of switching account on scale of 1-10

Category	1-4	5-7	8-10	Mean
1-extremely difficult				
10-extremely easy				
<hr/>				
Deprivation (15%)				
Deprived area	0%	36%	64%	8.4
Other	12%	32%	56%	7.4
<hr/>				
Growth firm(b)				
Super growth	6%	47%	47%	7.6
Other	13%	36%	51%	7.0

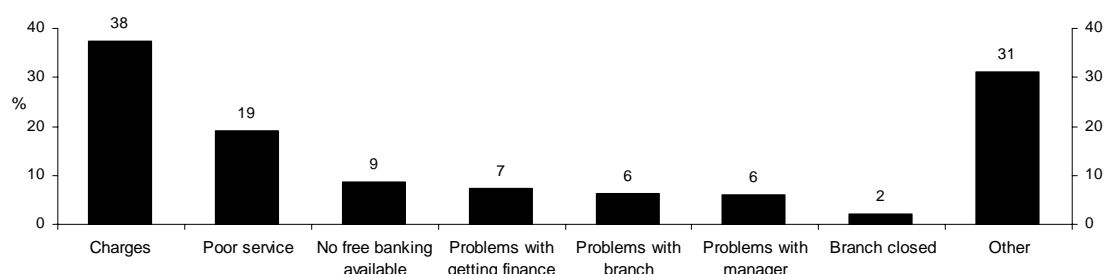
Bases: All those who changed bank: n=159,709 (Unweighted: n=113)

(b) All businesses who changed bank reporting growth status: n=105,054 (Unweighted: n=87)

10.4 Reasons for Switching

Chart 10.4.1 sets out the reasons offered for changing main bank accounts by those firms who had changed their main bank in the last year. The most important single reason is charges with nearly 40% of firms offering this as the reason they switched.

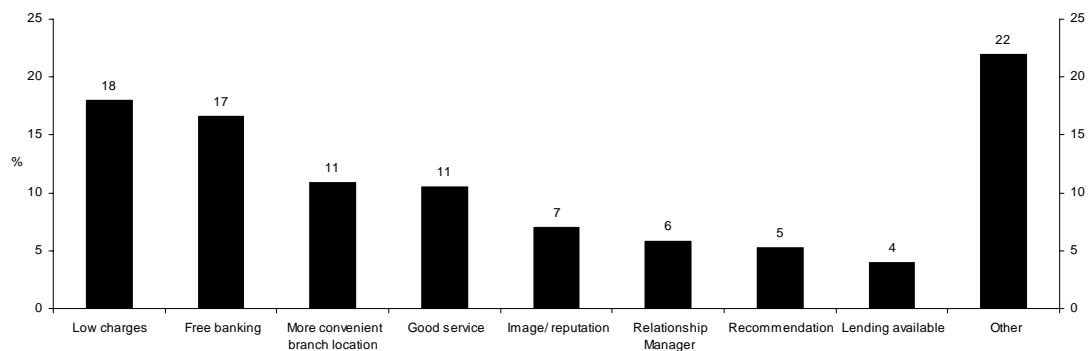
Chart 10.4.1 Reasons for changing main bank for business



Base: All those who changed bank 2007: n=159,709 (Unweighted: n=113)

This was followed by poor service and then a range of other factors of much less importance, including the absence of free banking, problems of getting finance and problems with the manager or the branch. In a small number of cases, the closure of the branch was also an issue. The answers to this question include an extremely wide range of miscellaneous, difficult to interpret and classify, reasons. The result is a rather large category labelled other, with over 30% of firms grouped under this heading. Further work will be necessary to see if some of this wide range of reasons can be coded into more discrete groups. The same is true in relation to Chart 10.4.2 that sets out the main reasons for choosing the new bank to which the businesses changed their accounts.

Chart 10.4.2 Main reason for choosing your new bank

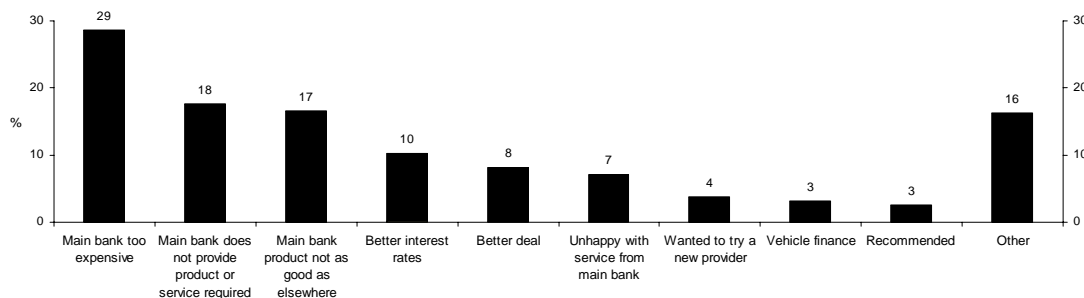


Base: All those who changed bank: n=159,709 (Unweighted: n=113)

Once again, it is clear that banking charges and costs dominate the switching motivation. These were the two dominant reasons given for choosing the new bank. This was followed by more convenient branch location and good service and then a range of other factors of decreasing importance, including image or reputation of the new bank, the presence of relationship banking, recommendations by others, and the availability of financing.

Chart 10.4.3 sets out the reasons put forward by firms who did not switch their main bank, but who switched some of their business to other financial providers and away from their main bank elsewhere.

Chart 10.4.3 Reasons for using another provider rather than main bank



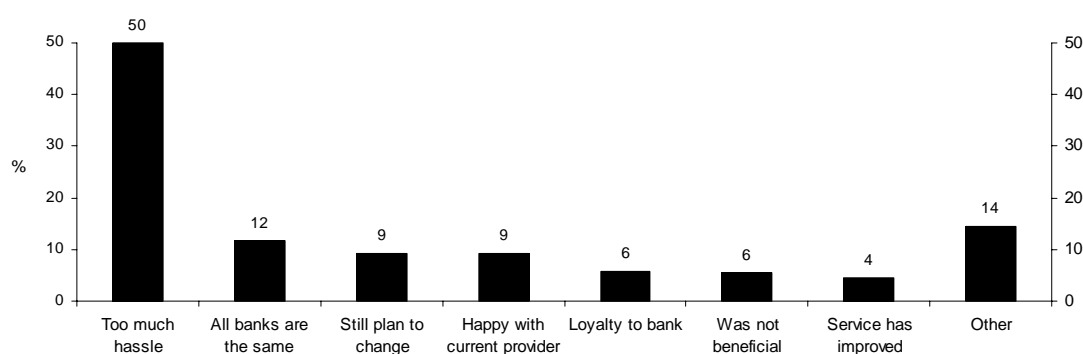
Base: All those who have shifted some business from main bank reporting values : n=377,554 (Unweighted: n=266)

Once again, the dominant reason is costs with the expense of the main bank being the main reason for switching business. This was followed by two categories related to the inadequacy or absence of service required in the original main bank. A variety of other reasons were offered which in decreasing order of importance were: better interest rates; a generally better deal; a lack of satisfaction of service from the main bank; a desire to try a new provider; and being recommended by another person or business. Once again, there is a large category of other reasons shown in the chart.

Our final analysis relates to the reasons that firms gave for not changing if they stated that they had considered changing. It is striking that the reasons given here are at odds with the experience of those firms that did actually switch. Whilst those firms that did switch mainly found the process very easy, the main reason given by nearly 50% of the firms who had thought about changing, but did not change, was that they expected too much hassle. It seems that there is a problem of expectations here that is not fulfilled when the actual process of change takes place.

Other reasons given for not changing were much less important and included a variety of factors, including the view that all banks are perceived to be the same, that change is still a possibility, that they did not change, because they were happy with their current provider or for reasons of loyalty, or that the service provided improved and led to the abandonment of the desire to change. The view that a change was not beneficial was also cited.

Chart 10.4.4 Reasons for not changing bank if have considered changing



Base: All those who have considered changing main bank reporting values: n=703,992 (Unweighted: n=393)

Taken together these results suggest that the main reason for dissatisfaction with existing banks arises in relation mainly to price factors and that the decision not to switch in the presence of those factors appears to be based on a misapprehension of the difficulty of switching, since those firms who did make the change found it relatively easy to do so.

It is noticeable that failure to obtain finance was not a factor in the stated reasons for switching banks. As a double check we compared the amount of finance sought and the percentage obtained by the switching and non-switching business. Table 10.4.1 shows that switching businesses sought less finance, but were just as successful in obtaining what they wanted as other firms.

Table 10.4.1 Amount of finance sought and % obtained by switching status

Category	Switched main business bank in last year	Did not switch main business bank in last year
Average amount sought(a)		
Mean(£)	108,575	227,183
Median(£)	8,000	14,000
% obtained(b)		
Obtained 100%	70	71
Obtained <100%	19	13
Obtained nothing	11	15
Average % obtained(b)		
Mean	79%	78%
(a) Base: All businesses seeking finance and reporting amount sought: those that switched bank in the last year: n=67,606 (Unweighted: n=53); those that did not switch bank in the last year: n=973,813 (Unweighted: n=785)		
(b) Base: All businesses seeking finance and reporting % obtained: those that switched bank in the last year: n=88,240 (Unweighted: n=72); those that did not switch bank in the last year: n=1,293,273 (Unweighted: n=1,024)		

As a check on bank charges and account characteristics we also carried out an analysis comparing switchers and non-switchers in terms of average monthly bank charges as well as the length of time the main bank relationship had existed and whether or not it was with a Top 4 bank. The results are shown in Table 10.4.2.

Table 10.4.2: Banking relationships and type of account used by switching status

Category	Switched main business bank in last year(a)	Did not switch main business bank in last year(b)
Main bank or financial institution		
Top 4	76%	56%
Other	23%	42%
Don't know	1%	3%
Average length of relationship (years)		
with main bank (mean)	2	12
with other providers in addition to main bank (mean)	6	11
Average monthly bank charge (Business accounts only)(c)		
Mean(£)	184	121
Median(£)	50	50
(a) Base: Businesses who switched bank in the last year: n=159,709 (Unweighted: n=113)		
(b) Base: Businesses who did not switch bank in the last year: n=4,096,630 (Unweighted: n=2,401)		
(c) Bases: All businesses with bank accounts reporting bank charges: Those who switched bank in the last year: n= 36,173 (Unweighted: n =47); Those who did not switch bank in the last year: n=1,839,710 (Unweighted: n=1,360)		

It shows that switchers report higher mean but not higher median changes. They are likely to have shorter relationships prior to switching and are more likely to be switching from a Top 4 bank. It must be noted, however, that changes and length of relationship may be related to other factors such as size and age which we have seen differ slightly between the switching and non-switching groups.

10.5 Multivariate analysis

To allow for the impact of correlations between the variables used in the univariate comparisons in this chapter, and to probe further into the relative characteristics of switching and non-switching firms, we carried out a multivariate probit regression analysis of the likelihood of switching against the standard set of variables used elsewhere in this report. The regressions included both sectoral and regional dummy variables and are estimated on the unweighted dataset. We also ran similar regressions for: the likelihood of moving some existing business to another provider; the decision to start using another provider for some services; and considering changing banking provision in some way. The results are shown in Table 10.5.1.

Similar analyses of future intentions were carried out for those that said they: were unlikely to change banks in the foreseeable future; would consider changing banks if approached; and were considering changing banks. The results are shown in Table 10.5.2.

If we first of all focus on those switching banks in the last year compared with the other firms, it appears from the first column of Table 10.5.1 that switching is not related to the size of business. Firms in the Construction sector are less likely to have switched banks; otherwise there are no statistically significant sectoral effects. There were no statistically significant regional differences.

Older businesses, that have been in existence for 10 years or more, are much less likely to switch than are businesses in the 2-9 year category. Start-up businesses, that are less than 2 years old, have no difference in their likelihood of switching than do firms in the 2-9 year old category. Businesses with a financially qualified manager are statistically significantly (for the full sample, but not amongst those seeking finance) more likely to switch banks and the same is true for those businesses that report using accountants for business advice. There is no relationship between changing banks and having been rejected when seeking finance.

When we look at the second column that analyses the probability of having moved some existing business to another provider, we again find no size, or regional, effect. Those with qualified financial managers and business improvers are more significantly likely to have done this. On the other hand, exporters and those receiving accountant's advice are less likely to have done so. Again, we find no relationship with the rejection of finance applications.

Turning now to the decision to use another provider for some services, the third column reveals that there are no significant size effects for this group of firms seeking finance. However, for the full sample, we found (not reported here) that micro, small and medium-sized employers are all significantly more likely to have started using another provider for some services when compared to businesses with zero employees. Start-up firms are significantly less likely (for the full sample) to have started using another provider for some services than are older firms or firms in the middle age ranges, which is perhaps to be expected.

Table 10.5.1 Switching main business bank – past behaviour

Probit regression analysis	Switched main bank in last year	Moved some business from main bank	Started using another provider for some services	Considered changing banks
Number of employees(a)				
1-9	-0.11	0.27	0.34*	0.11
10-49	-0.14	-0.05	0.22	-0.10
50-249	0.12	0.11	0.15	-0.28
Industry(a)				
Construction	-0.54*	-0.39	-0.31	-0.32
Distribution	0.01	-0.16	-0.17	0.11
Business services	-0.35	0.02	-0.19	0.06
Other services	-0.25	-0.08	-0.04	-0.10
Agriculture	0.14	-0.07	0.12	-0.18
Region(a)				
London	0.12	0.39	0.40*	0.37
South East	0.14	0.41	0.33	0.14
East	0.29	0.46	0.01	0.20
South West	-0.29	-0.62	0.13	-0.07
East Midlands		-0.15	-0.39	0.46*
Yorkshire and Humber	-0.20	-0.23	0.12	0.19
North West	-0.14	0.36	0.33	0.33
North East	-0.54	-0.46	0.01	-0.19
Wales	0.10	0.22	-0.29	0.00
Scotland	0.15	0.22	0.27	0.45*
N Ireland	0.23	0.46	0.35	0.25
Deprived area	-0.17	0.00	-0.01	-0.24*
Business factors				
Female led	0.08	-0.26	0.09	-0.04
New firm	0.15	-0.20	-0.23	-0.08
Old firm	-0.29**	0.10	-0.03	-0.04
No A' level	0.08	-0.03	-0.23*	-0.05
Owner has degree	0.12	0.14	-0.25**	-0.01
Finance qualified	0.18	0.39***	0.23**	0.17
Business improver	0.02	0.39*	0.11	0.08
Exporter	-0.12	-0.34	-0.17	0.02
Web for trading	0.20	0.03	0.16	0.06
Accountant advice	0.42**	-0.36**	-0.12	0.02
Other advice	0.19	-0.26	-0.18	0.00
Partial or outright rejection	0.11	0.12	-0.07	0.31***
Observations	922	1,001	1,001	796
Chi ²	53.6	81.0	50.2	40.2
Pseudo R ²	0.09	0.11	0.06	0.05

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

The third column also reveals that businesses whose owners had a degree were significantly less likely to have started using another provider for some services, whilst those who were financially qualified were more likely. It is not clear why this difference might exist. Business improvers were significantly more likely to have started using another provider for some services amongst the full sample.

If we now consider those who have considered changing banking provision, we find, in the final column, no strong effects for size, sector, or region. Firms in the deprived areas are less likely to have considered changing banks. Those businesses that were rejected in their finance applications are significantly more likely to be considering changing their banking provision. For the full sample, business improvers are found to have been significantly more likely to have considered switching.

We now turn to a more forward looking perspective on bank switching shown in Table 10.5.2. It is important when interpreting the results in this table to bear in mind that the first column reports answers to a question about a firm being *unlikely* to change. Thus a positive coefficient means a *lower likelihood* of changing their main bank. The second and third columns refer to a firm considering changes and thus a positive coefficient means a *higher likelihood* of future moves away from the main bank.

The results have been calculated for the full sample and just for those seeking finance, but only the latter are presented in the table. Looking first at the future intention to not change banks, shown in column one, we found for the full sample that old firms were more likely to not be planning to change and business improvers were more likely. For those seeking finance, we find only two significant results. First, firms in deprived areas are less likely to be planning to change. Second, those that were rejected in their application for finance are much more likely to be considering change.

If we turn to those who are considering changing their bank in the future, column 3 shows no size and only weak regional effects (except that for the full sample firms in Northern Ireland were significantly less like to be considering change). Construction and Agriculture firms show a lower willingness to consider changing banks. There is a weak positive association between considering changing bank and having been turned down for finance, and a weak negative association with business improvement and exporting.

The second column looks at those firms that said they would consider changing their main bank if another bank approached them. We find no size, sector, or regional effects. Deprived area firms are less likely to have said they would consider change in these circumstances, but business improvers are more likely to say they would. The strongest finding relates to finance rejection – those rejected are much more likely to say that they would consider change if they were approached.

Table 10.5.2 Relationship with current bank - possible future changes

Probit regression analysis	Unlikely to change banks	Would consider changing banks if approached	Are considering changing banks
Number of employees(a)			
1-9	-0.13	0.05	0.32*
10-49	-0.08	0.07	0.21
50-249	0.09	-0.07	0.03
Industry(a)			
Construction	0.21	-0.02	-0.65***
Distribution	-0.14	0.17	-0.04
Business services	-0.16	0.19	-0.18
Other services	0.02	0.10	-0.25
Agriculture	-0.02	0.23	-0.54*
Region(a)			
London	-0.28	0.24	0.12
South East	-0.08	0.01	0.09
East	-0.04	0.05	-0.02
South West	0.17	-0.17	-0.04
East Midlands	-0.18	0.20	0.02
Yorkshire and Humber	-0.09	0.12	-0.06
North West	-0.27	0.00	0.57**
North East	0.12	-0.15	-0.14
Wales	0.08	-0.24	0.27
Scotland	-0.13	-0.03	0.21
N Ireland	-0.08	0.09	-0.39
Deprived area	0.22**	-0.25**	-0.06
Business factors			
Female led	0.01	-0.02	-0.03
New firm	0.10	-0.24	0.27
Old firm	0.13	-0.12	-0.09
No A' level	0.01	-0.06	0.12
Owner has degree	0.02	-0.17	0.22
Finance qualified	0.06	-0.11	0.02
Business improver	-0.10	0.19**	-0.22*
Exporter	0.20	-0.13	-0.35*
Web for trading	0.06	-0.12	0.18
Accountant advice	0.02	-0.01	0.03
Other advice	0.05	-0.01	-0.12
Partial or outright rejection	-0.36***	0.26**	0.23*
Observations	1,001	1,001	1,001
Chi ²	49.0	42.4	56.2
Pseudo R ²	0.04	0.04	0.07

***, **, * indicate significance at the 1%, 5%, 10% levels. (a) Comparison groups are zero employees, Manufacturing & West Midlands

Executive Summary

- *This chapter examines actual and potential switching by small firms of their financial business from one bank to another. Low switching rates could be due to satisfaction, or dissatisfaction allied to an inability, or unwillingness, to do anything about it.*
- *In 2007 4% of the businesses switched main bank compared to 2% in 2004. But a much higher proportion (17%) have considered changing banks or switching part of their business to another financial provider.*
- *In terms of switching main business, firms where the business leader has ten years of experience are about half as likely to switch banks as firms with less experienced leaders. Those firms with a qualified financial manager switch banks at a higher rate.*
- *Super growth firms have a higher rate of switching compared to the rest of the business population.*
- *Two-thirds of businesses think it is unlikely that they will change banks in the foreseeable future. Just over a quarter would consider changing banks if they were approached and only 6% are actually considering changing banks. There seems to have been little change between 2004 and 2007 in the percentages of companies considering changing banks.*
- *57% of those who switched banks found the process to be extremely easy and a further 32% scored it as easy. Only 11% thought the process was extremely difficult.*
- *The most important reason offered for changing main bank accounts by those firms who changed their main bank was bank charges with nearly 40% of firms offering this as the reason they switched. This was followed by poor service and then by a range of other factors of much lower importance.*
- *Whilst those firms that did switch mainly found the process very easy, the main reason given by nearly half of the firms not switching was that they expected too much hassle.*
- *To allow for the impact of correlations between the variables we carried out a multivariate probit regression analysis of the likelihood of switching with the following results:*
 - *switching is not related to the size of business;*
 - *firms in the Construction sector are less likely to have switched banks;*
 - *there are no statistically significant regional differences;*
 - *older businesses are much less likely to switch;*
 - *businesses with a financially qualified manager are more likely to switch banks and the same is true for those businesses that report using accountants for business advice; there is no relationship between changing banks and having been rejected when seeking finance.*

- *When we look at the analysis of the probability of having moved some existing business to another provider, we find:*
 - *no size, or regional, effect;*
 - *those with qualified financial managers and business improvers are more significantly likely to have done this;*
 - *those receiving accountant's advice are less likely to have done so;*
 - *again, we find no relationship with the rejection of finance applications.*

- *On the decision to use another provider for some services, we find:*
 - *no significant size effects for finance seekers, but for the full sample, micro, small and medium-sized employers are all significantly more likely to have started using another provider;*
 - *start-up firms are less likely to have started using another provider;*
 - *business improvers were significantly more likely to have started using another provider for some services amongst the full sample.*

- *Looking at those who have considered changing banking provision, we find:*
 - *no strong effects for size, sector, or region;*
 - *firms in the deprived areas are less likely to have considered changing banks;*
 - *businesses that were rejected in their finance applications are significantly more likely to be considering changing their banking provision;*
 - *business improvers are more likely to have considered switching.*

11 International comparisons

This chapter draws upon other surveys of small business finance carried out for other countries and for which some data is comparable to the UK SME Finances 2007 survey. In several cases it has not been possible to match the year and the definitions are not identical; and so caution is required in drawing conclusions from these data.

11.1 US Survey of Small Business Finances (2003)

The Survey of Small Business Finances (SSBF) is carried out every five years and the most recently published findings are for the year 2003. It surveys small businesses in the United States with fewer than 500 employees and covers firms in the Manufacturing, Construction, Wholesale/retail and Service sectors.

The survey is carried out by telephone and asks respondents about the general characteristics of the firm, their sources and suppliers of financial services as well as some financial data. In the 2003 survey there were 4,240 respondents. The data was weighted up to represent around 6.3 million firms that matched the survey criteria and were listed on the DUNS Market Identifier File in May 2004 rather than the US population of firms.

There is some overlap in terms of the questions asked in the SSBF survey with the UK SME Finances survey. This is mainly in the areas of the business and owner characteristics and the usage of various financial products. Table 11.1.1 below lists the comparable owner characteristics available in both surveys. The figures shown exclude Agriculture in the UK SME surveys to make them more comparable to the SSBF survey.

It is apparent that the US survey covered a lower proportion of zero employee firms than the UK surveys and this would account for the lower proportion of sole traders in the US survey. In terms of the sectoral composition, the most notable differences are the lower proportion of SMEs in Construction and the higher proportion in Distribution in the US survey. These differences need to be taken into account in interpreting the differences in the SME owners' characteristics.

The findings relating to gender, ethnicity, age and experience of the US 2003 survey are closer to those for the UK 2004 survey than the UK survey in 2007. It is not possible to tell whether the change since 2003 in the United States has been the same as that found in the UK SME surveys with lower female ownership and younger and less experienced owners. Indeed, without the use of panel data, it is not possible to be certain that the changes between 2004 and 2007 in the UK are not simply a consequence of the sample.

A link to the website for the survey can be found at:
<http://federalreserve.gov/Pubs/oss/oss3/nssbftoc.htm>

The comparisons of the use of financial products that are possible are shown in Table 11.1.2 below. It shows that 60% of US SMEs had some form of loan compared with 65% of UK SMEs in 2004 and 52% in 2007. The usage of current accounts is similar and the slightly lower use by UK SMEs is possibly due to the higher proportion of zero employee firms covered by the UK surveys.

Table 11.1.1 Comparisons of business and owner characteristics in the UK and US(a)

	US SSBF (2003)	UK SME (2004)	UK SME (2007)
Number of employees			
0	21%	61%	71%
1-9	60%	33%	24%
10-49	17%	6%	4%
50-249	3%	1%	1%
Legal status			
Sole trader	45%	66%	57%
Partnership	9%	9%	8%
Limited company	47%	25%	35%
Industry			
Manufacturing	7%	5%	8%
Construction	12%	22%	22%
Wholesale/retail	24%	16%	14%
Service sectors	53%	57%	56%
Majority female owned			
Yes	22%	25%	17%
No	65%	75%	73%
Equal	13%	-	10%
Majority ownership			
White	91%	93%	94%
Ethnic minority	9%	7%	6%
Owner's age			
< 21 years	0%	0%	1%
21-39 years	14%	14%	24%
40 years or over	86%	86%	75%
Owner's experience			
Under a year	0%	0%	5%
1-9 years	16%	18%	32%
10 years or more	84%	82%	63%
Education			
Trade/vocational qualification(b)	8%	2%	-
Secondary school level qualification	17%	23%	22%
Undergraduate degree	29%	14%	16%
Postgraduate degree	20%	10%	12%

(a) Agriculture is excluded from the UK figures to match the US survey

(b) This was specified as a category in 2004 but not 2007

Deposit accounts are used by a materially higher proportion of SMEs in the UK compared with the US. Personal credit cards were used by 47% of US SMEs compared with 51% of UK SMEs in 2004 and 36% in 2007. The use of business credit cards has risen amongst UK SMEs and, at 73%, is materially ahead of the

48% usage in the US. In terms of spending on both types of credit card, the US has higher levels than UK SMEs.

Table 11.1.2 Proportion using financial products in the UK and US(a,b)

	US SSBF (2003)	UK SME (2004)	UK SME (2007)
Any loan (c)	60%	65%	52%
Current account	95%	97%	91%
Deposit account	22%	41%	41%
Personal credit card	47%	51%	36%
Business credit card	48%	61%	73%
Average monthly amount charged to personal credit cards(£)	median 271 mean 1,082	-	median 200 mean 761
Average monthly amount charged to business credit cards(£)	median 541 mean 1,679	-	median 400 mean 1,134

(a) Agriculture is excluded from the UK figures to match the US survey

(b) For the SSBF this relates to current use, for the UK SME survey this is use in the last 3 years

(c) For the US, any loan denotes any of the following: credit lines, mortgages, vehicle loans, equipment loans or capital leases. For the UK any loan denotes using any of overdrafts, term loans, asset finance or asset-based finance

11.2 Eurobarometer SME Access to Finance Old Member States - 2005

A 2005 Eurobarometer report on SME Access to Finance in the Old Member states: Germany, Spain, France, Italy, UK, Greece, Ireland, Luxembourg, Portugal, Finland, Belgium, Denmark, the Netherlands, Austria and Sweden carried out in 2005 can be found at: http://ec.europa.eu/public_opinion/flash/fl174_en.pdf

The target for the survey was exclusively companies, excluding agriculture and public administration, employing 1 - 249 persons in the 15 Old Member States of the European Union. The sampling in each country was made according to two stratification criteria: size of company (1-9, 10-49 and 50-249 employees), and the activity sector (construction, industry, services and trade). The survey included subsidiaries and it is not specified whether the parent companies were qualifying SMEs or non-SMEs.

The survey results were re-weighted after the survey and are representative of the total country universes examined. The following aspects were covered in this survey:

- The state of SMEs: their financial situation, their growth and development.
- The use of financial instruments: financial institutions and types of financing.
- Access to finance through banks: the use of banks, ease of access now and compared to the past, attitudes towards banks.
- The use of small loans: whether SMEs have done this, their views about it and reasons that would encourage them to do so.
- The use of venture capital: to what extent it is currently being used, do SMEs foresee this to be a form of financing in the future and for what reasons?

- Financial management: how this is done and to whom SMEs turn for information or advice on financing.

The survey report contains a large number of tables. Within the constraints of the tables provided in the report we have made comparisons with the UK SME Finance survey. Figures are given for various countries but only Germany and France are shown here as an example, as well as the UK Eurobarometer average results for these Old Member States (OMS). The number of respondents in each case was 300. As for the US survey, the raw data is not available and so matched comparisons cannot be made.

The values shown here for the UK SME Finance surveys are for companies only, employing 1-249 people and excluding Agriculture to correspond to the Eurobarometer figures. Table 11.2.1 compares the business and owner characteristics of the surveys. Comparison of the UK within the Eurobarometer surveys with the others reveals a similar size distribution and a sectoral distribution closer to that of Germany than the other OMS. When zero employee firms are excluded from the UK SME Finance surveys, we find them to have a slightly lower proportion of micro firms with 1-9 employees and a higher proportion in Services.

Table 11.2.1 Business and owner characteristics in the UK SME Finance and Eurobarometer Old Member States surveys(a)

	Eurobarometer			UK SME survey		
	OMS (2005)	Germany (2005)	France (2005)	UK (2005)	UK SME (2004)	UK SME (2007)
Number of employees						
1-9	86%	82%	86%	85%	76%	79%
10-49	12%	16%	12%	13%	22%	16%
50-249	2%	2%	2%	2%	3%	5%
Industry						
Manufacturing	20%	12%	15%	12%	8%	12%
Construction	12%	12%	15%	10%	16%	11%
Wholesale/retail	35%	29%	37%	33%	24%	21%
Service sectors	33%	47%	33%	45%	53%	56%
Annual turnover(b)						
Less than €250,000	31%	26%	27%	52%	23%	25%
€250,000 to €500,000	21%	23%	22%	19%	15%	16%
€500,000 to €1,000,000	13%	14%	20%	6%	21%	15%
€1,000,000 to €2,000,000	10%	18%	15%	4%	17%	19%
€2,000,000 to €2,500,000	2%	3%	1%	2%	3%	3%
€2,500,000 to €5,000,000	5%	6%	5%	2%	12%	13%
More than €5,000,000	4%	4%	4%	4%	10%	9%

(a) Note values shown for all surveys are for firms with employees only and exclude agriculture

(b) Note the exchange rate for the UK surveys has been calculated using the average exchange rate over the relevant survey periods. (2004=1.47) (2007=1.43)

These differences need to be borne in mind when considering information about the use of various financial products that is provided in Table 11.2.2 for the various surveys. Looking first at the Eurobarometer findings we find that the UK has a higher use of overdrafts and venture capital funds, but lower use of HP/leasing finance and

factoring/ invoice discounting than other OMS taken together. It also shows that the UK has a lower proportion of long-term loans and of public subsidies, or grants.

The UK SME Finance surveys provide figures that generally straddle the Eurobarometer findings for the UK and this may simply be due to its timing half way between the 2004 and 2007 surveys. The one exception to this is the lower level of factoring/ invoice discounting in both surveys.

Table 11.2.2 Proportion of SMEs using financial products in the UK SME Finance and Eurobarometer Old Member States surveys(a,b)

	Eurobarometer				UK SME survey	
	OMS (2005)	Germany (2005)	France (2005)	UK (2005)	UK SME (2004)	UK SME (2007)
Overdraft	50%	69%	53%	56%	63%	55%
HP/leasing	51%	71%	50%	37%	48%	33%
Discount/factoring	19%	6%	30%	14%	6%	9%
Venture capital funds	6%	4%	4%	8%	10%	3%
Family/friends	9%	14%	13%	8%	8%	8%
Loan shorter than 3 yr term	31%	40%	35%	18%	-	-
Loan longer than 3 yr term	45%	56%	58%	28%	-	-
Any loan	-	-	-	-	34%	31%
Public subsidies/grants	14%	20%	12%	5%	13%	8%

(a) In the Eurobarometer survey the question asks whether the products have been used. The UK SME Finance survey asks about use in the last 3 years
(b) Note values shown for all surveys are for firms with employees only and exclude agriculture

Table 11.2.3 examines sources of advice used by SMEs as shown by the various surveys. The domination of the bank manager and the accountant as sources of advice is clear; and the Eurobarometer survey finds, even for the UK, that the bank manager is used by a higher proportion of SMEs than the accountant. Although it does show the accountant to be used more commonly by UK SMEs than other OMS, it still does show the bank manager as more important; and this is different from the findings of the UK SME Finance surveys. In each of these surveys the accountant was shown to be a more important source of advice than the bank manager.

Table 11.2.3 Main/first(a) source of advice used in the UK SME Finance and Eurobarometer Old Member States surveys(b)

	Eurobarometer				UK SME survey(c)	
	OMS (2005)	Germany (2005)	France (2005)	UK (2005)	UK SME (2004)	UK SME (2007)
Bank	45%	47%	36%	45%	9%	23%
Accountant	20%	20%	30%	33%	56%	55%
Solicitor	6%	4%	9%	2%	5%	3%
Professional contacts	4%	3%	2%	4%	11%	9%
Relatives and/or friends	4%	4%	3%	6%	14%	5%

(a) The Eurobarometer survey asks about the first source approached, the UK SME Finance survey asks about the main source approached
(b) Note values shown for all surveys are for firms with employees only and exclude agriculture
(c) Base here is only those who sought advice

Finally in this section, Table 11.2.4 examines the use of a business, or development, plan by SMEs. The figures for the UK from the two surveys agree in this respect, with about 40% of SMEs with employees having a plan. This proportion is similar to the average level in the OMS.

Table 11.2.4 The use of business plans by SMEs in the UK and Old Member States surveys(a,b)

Have development plan for next 3 years	Eurobarometer				UK SME survey	
	OMS (2005)	Germany (2005)	France (2005)	UK (2005)	UK SME (2004)	UK SME (2007)
Yes	37%	41%	26%	37%	-	40%
No	62%	58%	73%	62%	-	60%

(a) Note values shown for all surveys are for firms with employees only

(b) This is the Eurobarometer wording, the SME Finance survey wording is 'Do you have a formal written business plan'

11.3 SBS UK Annual Survey of Small Businesses: 2006/7

The Annual Small Business Survey or SBS has been carried out annually since 2003 with the latest survey taking place in late 2006, early 2007. This was a telephone-based survey of businesses with 0-250 employees that covered the whole of the UK. 9,905 SMEs were interviewed and the data was weighted to be representative of SMEs in the UK but not weighted to represent the different sectors of the economy.

The survey looked at various issues including business objectives and growth, obstacles to business success, finance, sources of advice and use of government services. Full data annexes for the 2006/7 survey are available online at <http://www.berr.gov.uk/files/file44897.doc> and the summary report can be found at <http://www.berr.gov.uk/files/file42727.doc>

Table 11.3.1 examines the comparable characteristics of SMEs between the SBS 2006/7 and UK SME Finance surveys 2007 and 2004.

As we would expect, the size distribution of the surveys are comparable since similar weights were applied to the samples. However, there are differences in other characteristics that cannot be controlled by the sampling methodologies used. Thus, the recent SBS survey, which did not weight to be representative on sectors, has lower proportions of female businesses, sole traders Construction and Services SMEs and a higher proportion of Distribution firms.

These factors have to be taken into account when comparing the other findings below.

Table 11.3.1 Business and owner characteristics in the UK SME Finance survey 2004, 2007 and the UK SBS 2006/7

	UK SBS (2006/7)	UK SME (2004)	UK SME (2007)
Number of employees			
0	73%	61%	71%
1-9	23%	32%	25%
10-49	4%	6%	3%
50-249	1%	1%	1%
Legal status			
Sole trader	37%	66%	57%
Partnership	21%	10%	7%
Limited partnership	*		2%
Limited company	41%	24%	34%
Industry			
Agriculture	6%	4%	4%
Manufacturing	11%	5%	8%
Construction	9%	21%	21%
Wholesale/retail	27%	16%	13%
Service sectors	46%	54%	54%
Majority ownership(a)			
Male	83%	75%	81%
Female	16%	25%	19%
Female leadership			
<50%	58%	-	73%
=50%	28%	-	10%
>50%	13%	-	17%
Majority ownership			
White	93%	93%	94%
Ethnic minority	6%	7%	6%
Turnover			
Less than £61,000	31%	49%	52%
£61,000-£99,999	11%	10%	8%
£100,000-£249,999	17%	18%	17%
£250,000-£499,999	9%	7%	9%
£500,000-£999,999	6%	8%	5%
£1m-£1.49m	3%	2%	2%
£1.5m-£2.8m	2%	2%	1%
More than £2.8m	1%	4%	6%
Export			
Yes	22%	10%	9%
No	78%	90%	91%
Location			
Urban	63%	69%	-
Rural	37%	31%	-
In 85% least deprived areas(b)	78%	-	81%
In 15% most deprived areas	9%	-	19%

*=Less than 0.5%

(a) For the UK SME (2007) survey and the UK SBS (2006/7) survey the figures exclude equal ownership. In the UK SME (2004) survey equal ownership is included in female ownership. To directly compare the UK SME 2007 figures with the UK SME 2004 figures the equivalent 2007 figures are 73% majority male owned and 27% >=50% female owned.

(b) The UK SBS survey does not sum to 100% since some areas could not be assigned.

The following tables compare the SBS 2006/7 survey and the UK SME Finances survey 2007 and 2004 on the financial questions asked in the respective questionnaires. These cover the number of SMEs seeking finance, the type and amount of finance sought and the proportion of SMEs who were unable to obtain the finance they needed.

Please note that the two surveys ask about different time periods in relation to the finance questions. The 2004 report on the UK Survey of SME Finances found that extrapolating a figure over three years from the SBS survey relating to the use of financial products in a 12 month period gave a figure comparable to that for a three year period on the SME survey.

The figures shown in Table 11.3.2 are derived from answers to the question: 'Have you tried to obtain finance for your business in the last 12 months?' In the UK SME 2007 survey the question was: 'During the last 3 years have you applied for; an overdraft, commercial loans or mortgage, leasing or hire purchase arrangements, asset based finance, credit cards, equity or shares?' A 'yes' to any of these options meant they sought finance in the last 3 years.

The comparisons suggest that the relation between the proportion seeking finance and firm size is found in each survey. If we apply the 'multiply by three' rule it would appear that a higher proportion of firms in the SBS survey sought funds. There is also a somewhat different pattern across the sectors, but all three surveys show Manufacturing with the highest proportion.

Table 11.3.2 Percentage of SMEs seeking finance in the UK SME Finance survey 2004, 2007 and the UK SBS 2006/7

	UK SBS (2006/7)(a)	UK SME (2004)	UK SME (2007)
All	17%	44%	36%
Employment			
0	15%	36%	32%
1-9	21%	55%	43%
10-49	32%	65%	59%
50-250	39%	76%	58%
Industry			
Agriculture	14%	58%	37%
Manufacturing	20%	63%	45%
Construction	19%	57%	25%
Service sectors	17%	52%	38%

(a) The SBS figures relate to the last 12 months but the UK SME survey covers the last three years

The percentage of those SMEs seeking finance that sought various types is shown in Table 11.3.3 for the three surveys. We can see that a higher proportion of finance seekers sought overdraft finance in the 2007 survey than in either of the others. The SBS survey finds a higher proportion seeking loans and mortgages than found in the

UK SME Finance surveys. On the other hand, the proportion seeking hire purchase, or leasing, finance is far higher in the SME Finance surveys than found in the SBS survey. This could possibly be due to the way in which the question was asked.

Table 11.3.3 The type of finance sought in the UK SME Finance survey 2004, 2007 and the UK SBS 2006/7

	UK SBS (2006/7)(a)	UK SME (2004)	UK SME (2007)
Overdraft	32%	32%	56%
Bank loan	39%	-	-
Mortgage	8%	-	-
Term loan/mortgage	-	40%	39%
Leasing or hire purchase	8%	39%	33%
Equity finance	2%	7%	2%

(a) Note that the SBS figures relate to the last 12 months whereas the UK SME survey covers the last 3 years

The percentage distribution of finance seekers across the classes of the amount of finance sought is shown in Table 11.3.4. The 2007 survey shows greater proportions at both ends of the distribution, particularly at the bottom, but the distributions are not very different.

Table 11.3.4 The amount of finance sought in the UK SME Finance survey 2007 and the UK SBS 2006/7

	UK SBS (2006/7)(a)	UK SME (2004)(b)	UK SME (2007)
Less than £5,000	14%		23%
£5,000 to £9,999	13%		19%
£10,000 to £49,999	42%		25%
£50,000 to £99,999	8%		9%
£100,000 to £499,999	18%		16%
£500,000 to £999,999	2%		2%
£1 million to £2 million	2%		3%
£2 million +	1%		3%

(a) The SBS figures relate to the last 12 months whereas the UK SME survey covers the last three years.

(b) The amount of finance sought was not asked in this way in 2004

Finally, Table 11.3.5 looks at the proportion of SMEs that were unable to obtain any of the finance they needed having sought finance. This outright rejection was experienced by 15% of firms in both the SBS survey and the 2007 UK SME Finance survey, an increase on that found in 2004.

Table 11.3.5 Comparison of businesses unable to obtain the finance they needed in the UK SME Finance survey 2004, 2007 and the UK SBS 2006/7

	UK SBS(2006/7)(a)	UK SME (2004)	UK SME (2007)
Unable to obtain any finance	15%	11%	15%

(a) Note that the SBS figures relate to the last 12 months whereas the UK SME survey covers the last 3 years