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**FINANCING SMALL BUSINESSES**

**A Comparative Study of Pakistani-Immigrant Businesses  
and UK-Indigenous Businesses in the Travel Trade**

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## ABSTRACT

This research is about financing practices of Pakistani-immigrant and indigenous-owned small travel agents. The study provides an understanding of the capital structures of businesses owned by both groups and compares these to draw similarities and differences between both groups. The research integrates the “ethnic enclave” immigrant theory, the capital structure theory in particular the Pecking Order Hypothesis, the role of “networks” in business financing, and the business life-cycle theories.

The research question and the research hypotheses emerged from the literature reviewed. Ten case studies, five Pakistani businesses and five indigenous businesses, confirmed the hypotheses which formed the basis of a survey of a large sample of sixty businesses, thirty in each group. The case study data is considered invaluable since it provided the real evidence of the sensitive nature of financial information in these businesses. The methodology adopted was a combination of qualitative and quantitative approaches.

The findings of the study show that there are more similarities than differences among the capital structures of both groups of businesses. The nuclear family plays a crucial role throughout the life-cycle of the business in both groups. The role of family labour is not as prominent as among other industries such as Confectionery, Tobacconists, and Newsagents (CTN's). Informal sources of finance are preferred over formal sources by both groups of businesses due to their availability and lower cost. The Pecking Order Hypothesis theory applies to both groups of businesses. The main sources of formal finance were high street banks, bank overdrafts and loans. Pakistani businesses were not disadvantaged in any way by the formal providers of finance.

This research is the first to report on the comparative capital structures among both groups of businesses. However, although considerable contribution has been made by this research to the small business finance literature further research should be conducted into the area.



## TABLE OF CONTENTS

### **Chapter 1 Introduction**

1.0 Introduction	1
1.1 Background to the study	1
1.2 Significance of this research	2
1.3 Research Objectives	5
1.4 Organisation of the thesis	6

### **Chapter 2 Review of Literature on Immigrant Business Finance**

2.0 Introduction	9
2.1 Small Business Definitional Framework	9
2.2 Theoretical framework for Immigrant Business Research	16
2.3 Literature Review - Immigrant Small Business Research in the UK	30
2.4 Small Business and the Theory of Finance	50
2.5 Capital Structures of Immigrant Owned Businesses	53
2.6 Summary	59

### **Chapter 3 Migrant Networks in Pakistani Owned Small Businesses**

3.0 Introduction	62
3.1 Pakistani Migration into the UK	62
3.2 Role of Family in Small Business Finance	67
3.3 Network Typology in Business Support	70
3.4 Financial Life-Cycles and Small Business	74
3.5 Summary	87

### **Chapter 4 The Research Focus - Research Question and Hypotheses**

4.0 Introduction	90
4.1 Research Context	90
4.1.1 Why Capital Structures?	91
4.1.2 Why Migrant Networks?	93
4.1.3 Why Family Business?	96
4.1.4 Why Business Life-Cycles?	98
4.1.5 Why Travel Agents?	100
4.2 Research Question	101
4.3 Research Hypotheses	102
4.4 Research Design	103
4.5 Summary	105



## **Chapter 5 Research Methodology**

5.0 Introduction	106
5.1 The Philosophical Stance	107
5.1.1 Some Basic Concepts	107
5.1.2 Methodological Issues	108
5.1.3 Two Modes of Research Approach	110
5.2 Methodology and Circumstance	119
5.3 Methods of Data Collection	120
5.3.1 In-Depth Interviews	120
5.3.2 Case Study	121
5.3.3 Historical Research	124
5.3.4 Survey	125
5.4 Combining Methods	126
5.5 The Research Strategy	128
5.6 Research Sample	128
5.6.1 Factors Affecting Sample Size	129
5.6.2 Sampling Techniques	130
5.6.3 Proposed Sample Size	132
5.7 Analytical Strategy	135
5.8 Problems of Data Collection	138
5.9 Quality of Research Measures	139
5.10 Summary	142

## **Chapter 6 The Capital Structures of Pakistani Immigrant Small Businesses**

6.0 Introduction	143
6.1 Capital Structures of Pakistani Businesses (Case Studies)	
Case A (Farooq)	143
Case B (Ali)	152
Case C (Malik)	159
Case D (Shah)	167
Case E (Rahim)	173
6.2 Capital Structures of Pakistani Immigrant Businesses (The Survey)	
6.2.1 Sources of Capital - Start-up stage	180
6.2.2 Sources of Capital - Since Start-up	184
6.3 Family Contribution to Finance and the Role of the Community	189
6.4 Financial Networks Typology	193
6.5 Supplier Credit	195
6.6 Summary	198

## **Chapter 7 The Capital Structures of Indigenous Small Businesses**

7.0 Introduction	201
7.1 Capital Structures of Indigenous Businesses (Case Studies)	
Case A (William)	201
Case B (Michael)	205
Case C (Gerry)	208
Case D (Victor)	212
Case E (Andrew)	215
7.2 Capital Structures of Indigenous Businesses (The Survey)	
7.2.1 Sources of Capital - Start-up stage	220
7.2.2 Sources of Capital - Since Start-up	224
7.3 Family Contribution to Finance and the Role of the Community	227
7.4 Financial Networks Typology	229
7.5 Supplier Credit	231
7.6 Summary	232

## **Chapter 8 The Comparative Capital Structures of Pakistani Immigrant and Indigenous Owned Small Businesses**

8.0 Introduction	235
8.1 Capital Structures of Pakistani Immigrant Owned Businesses	235
8.2 Capital Structures of Indigenous Owned Businesses	244
8.3 Comparative Capital Structures of Pakistani and Indigenous Businesses	247
8.4 Research Hypotheses	
Hypotheses 1 and 2	254
Hypothesis 3	255
Hypothesis 4	256
Hypothesis 5	258
8.5 Summary	259

## **Chapter 9 Conclusion**

9.0 Introduction	260
9.1 Summary of the Findings	260
9.2 Limitations of the Research	271
9.3 Contributions of the Research	272
9.4 Generalisability of the Research Findings	273
9.5 Policy Issues	274
9.6 Further Research Directions	276
9.7 Summary	277

<b>References</b>	<b>278</b>
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**List of Appendices**

Appendix 1	Interview Schedule	297
Appendix 2	Postal Questionnaire Yellow - Pakistani Blue - Indigenous	299
Appendix 3	Letter of introduction to survey firms	316



**List of Figures:**

Figure 1.1:	A schematic representation of the organisation of the thesis	8
Figure 2.1:	Small business working definition	15
Figure 4.1:	Areas of study	91
Figure 4.2:	A schematic representation of the research design	104
Figure 5.1:	Methodological components and process of this research	127
Figure 5.2:	Analysing case study evidence	136
Figure: 8.1:	A typical family/friends/neighbours network	236
Figure 8.2:	Different types of family structure	239

**List of Tables:**

Table 2.1:	The Bolton committee's definition of small firms	10
Table 2.2:	Definitions of small firms in the UK	12
Table 2.3:	Small and Medium-sized businesses Companies act 1985 Criteria	12
Table 2.4:	Approaches to immigrant/ethnic/minority businesses	29
Table 2.5:	Concentration areas of study on Asian Small Businesses in the UK	48
Table 2.6:	Studies on Asian Small Businesses in the UK	49
Table 3.1:	Comparison of life-cycle stage models	80
Table 3.2:	Comparison of life-cycle stage / sources of finance	84
Table 5.1:	Differences in quantitative and qualitative approaches	111
Table 5.2:	Sampling Techniques	131
Table 5.3:	Coinciding the empirical patterns with findings of the study	137
Table 6.1:	Tendencies of capital structures among Pakistani-businesses	178
Table 6.2:	Number of family and non-family employees in Pakistani-businesses	179
Table 6.3:	Frequency counts of the main sources of finance - start-up stage	181
Table 6.4:	Frequency counts of the reasons for preferring sources of finance - start-up stage	182
Table 6.5:	Frequency counts of debt - start-up stage	183
Table 6.6:	Frequency counts of equity - start-up stage	184
Table 6.7:	Frequency counts of main sources of finance - since start-up stage	186
Table 6.8:	Frequency counts of the preferred sources of finance since start-up stage	186
Table 6.9:	Frequency counts of debt - since start-up stage	187
Table 6.10:	Frequency counts of equity - since start-up	189
Table 6.11:	Number of family and non-family employee per case Pakistani-businesses	192
Table 6.12:	Percentage of total capital raised through various networks at start-up	194
Table 6.13:	Percentage of total capital raised through various networks since start-up	195
Table 6.14a:	Supplier credit at start-up stage: Methods of payment available to businesses	196
Table 6.14b:	Supplier credit period at start-up stage	197
Table 7.1:	Tendencies of capital structures among indigenous businesses	219
Table 7.2:	Number of family and non-family employees in indigenous businesses	219
Table 7.3:	Frequency count of the sources of finance - start-up stage	221

Table 7.4:	Frequency counts of reasons of preferring sources of finance start-up stage	222
Table 7.5:	Frequency counts of debt - start-up stage	222
Table 7.6:	Frequency counts of equity - start-up stage	223
Table 7.7:	Frequency counts of main sources of finance since start-up stage	224
Table 7.8:	Frequency counts of reasons of preferring sources of finance since start-up stage	225
Table 7.9:	Frequency counts of debt - since start-up stage	226
Table 7.10:	Frequency counts of equity - since start-up stage	226
Table 7.11:	Number of family and non-family employees per case indigenous businesses	228
Table 7.12:	Percentage of total capital raised through various networks start-up	230
Table 7.13:	Percentage of total capital raised through various networks since start-up	230
Table 7.14a:	Supplier credit at start-up stage: Methods of payment available to businesses	231
Table 7.14b:	Supplier credit period at start-up stage	232
Table 8.1:	Capital structures of Pakistani-immigrant small businesses	244
Table 8.2:	Capital structures of indigenous small businesses	247
Table 8.3:	Comparative capital structures of Pakistani-immigrant and indigenous owned small businesses	251
Table 8.4:	Reasons for preference of sources of finance throughout the life-cycle Pakistani-immigrant and indigenous businesses	253
Table 8.5:	Problems faced when raising finance by Pakistani-immigrant and Indigenous businesses	253
Table 8.6a:	Percentage of informal / formal sources of finance used by Pakistani and indigenous small businesses at start-up Stage	254
Table 8.6b:	Percentage of informal / formal sources of finance used by Pakistani and indigenous small businesses since start-up stage	255



## **Chapter 1**

### **Introduction**

#### **1.0 Introduction**

The aim of this chapter is to establish the background to the study. This is achieved by outlining the importance and significance of this research. The research objectives are also outlined. Finally the organisation of the thesis is presented.

#### **1.1 Background To The Study**

The growth of new ethnic<sup>1</sup> populations in Europe since 1945 as well as new waves of immigrants to the United States after the 1965 reform of immigration laws has made ethnic enterprise a topic of international concern. The new ethnic populations are growing at a time of restructuring in western economies, and large numbers of immigrant and ethnic minorities find themselves caught in the conjuncture of changing conditions. Members of some groups have entered business ownership in numbers disproportionate to their group's size, whereas others have shunned entrepreneurial activities.

The typical immigrant entrepreneur<sup>2</sup> in present-day Britain is the Asian (Indian, Pakistani, and Bangladeshi) who far outnumbers other ethnic minority members in

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<sup>1</sup>According to Petersen (1980) "ethnic" is an adjective that refers to differences between categories of people. Yinger (1985) explains that when "ethnic" is linked to "group" it implies that members have some awareness of group membership and a common origin and culture, or others think of them as having attributes. Here it is assumed that what is "ethnic" about ethnic enterprise may be no more than a set of connections and regular patterns of interaction among people sharing common national background or migratory experiences.

<sup>2</sup>Many writers have suggested making a distinction between entrepreneurs and owner/managers on the basis of either innovativeness or risk, but few have done a convincing job. Neither economists (Baumol 1968:66) nor sociologists (Wilken 1979:60) have been able to operationalize this distinction so that "entrepreneurs" are clearly differentiated from "owners" or even the self-employed. Here a lead set by anthropologists is followed, which is to define entrepreneurs operationally as owners and operators of business enterprises (Greenfield et al 1979). This definition includes self-employed persons who employ family labour as well as those who employ outsiders.

business. Asian-owned businesses range from manufacturing to corner shops. Until fairly recently, the Asian retailer was able to go unobtrusively about his affairs unremarked outside the inner city which is his principal sphere of operation. For some time a sporadic flow of newspaper features has appeared, under headings such as “The Bazaar on the Corner” (Daily Telegraph Magazine), “From Street-Corner Trader to Millionaire” (Smith 1984), and “Market stall to Mercedes” (Ward 1987) designed (almost literally) to add spice to the truth.

There is an increasing body of research on Asian businesses, (Cater et al 1978; McEvoy et al 1978; Aldrich 1980; Aldrich et al 1981; Ahmed 1981; Brooks 1982; Rafiq et al 1985; Ward and Jenkins 1984; Wilson 1983; 87; Ram 1992; Ram and Holiday 1992; Deakins, Hussain, and Ram 1992, 1994; Blackburn 1993, 1994; Curran and Blackburn 1993; Jones et al 1994 - see table 2.5, 2.6) but none have so far dealt with the understanding of capital structures of immigrant-owned small businesses.

## **1.2 Significance of This Research:**

Ethnic-owned businesses have increased in importance in the last decade: one estimate is that over 5% of all the self-employed are from ethnic minorities (Owen 1993a). Statistical trends in business participation rates among ethnic minorities in the UK suggest that by the year 2000 a significant segment of the small business population will be within the ethnic sector (Ward 1991).

Skeel (1990) claims that in the 40 years since the first Asian influx in the UK, after India's and Pakistan's independence in 1947, Asians have made remarkable gains. Their annual spending power is estimated at £5 billion, they own nearly half of

Britain's independent shops, and it is estimated that up to 300 of their 1.5 million number (2.7% of the British population) are millionaires. Collectively, their total wealth is estimated at some £2.6 billion. Owen (1993b) puts the total number from South Asia (India, Pakistan, Bangladesh) at 1,479,700 out of which 840,300 are Indians, 476,600 are Pakistanis and 162,800 are from Bangladesh, thus making Pakistanis the second largest group.

A large number of them have built their wealth from scratch, arriving from India or Pakistan as penniless immigrants, or fleeing racial persecution in East Africa. Some escaped only with their lives from Idi Amin's Uganda, having left behind huge industrial empires. Wilson (1983) claims that Asians have the 'Midas' touch and can turn any business into a profitable firm. "The Economist" (August 1992) reports that Asians run their businesses in their own special way (hard work, strong family networks, business secrecy, arranging loans outside the formal banking system - even where Islam forbids usury, the deeply religious borrow from their fellows).

Research on the financial behaviour of such immigrant-owned businesses has often stressed community sources and networks, alleging these are highly effective alternatives and/or additional sources of finance to those provided by other agencies including the high street banks (Jones et al, EMBI 1992a;). Other research has pointed out the specific problems of certain ethnic groups securing finance from institutional sources (EMBI 1992b). One view on Asian owned small businesses is that they are less dependent on non-community sources for finance, but if they do use conventional sources, such as high street banks, they are more likely than other ethnic groups and whites to be successful in obtaining finance (Wilson and Stanworth 1987;



Ward and Reeves 1980; Bose 1982; Aldrich et al 1984; Foster 1987). Although none of the studies conducted so far have reported on the amounts required for start-up or subsequent capital, the percentage of total capital raised through non-community sources compared with community (informal) sources has also not been reported. Indeed, there is a strong case in favour of the lending institutions dispersing funds with confidence when they know the entrepreneurs' equity is invested in the business whether it be through personal savings or community sources. Against this background, there is a need to study the capital structures of Pakistani-immigrant-owned small businesses, to establish an understanding of their business finance practices, and to compare these with the indigenous-owned small businesses to seek any group-specific differences in the formation of capital structures.

The significance of studying this topic lies in:

**Research in Ethnic Small Business:**

According to Ward and Jenkins (1984), "further research in small business is desirable". Jenkins suggest that "in order to understand what, if anything, characterises the ethnic business sector as in any sense different or peculiar we need to know more than we do about that with which we are comparing it".

Ward and Jenkins (1984) also claim that "there is a need for research into ethnic minority businesses to be more explicitly comparative". They suggest that, "we need more studies which set out to compare the business activity of different ethnic groups within the UK, including white Britons";

Miyamoto (1986) claims that we need more rigorous, detailed comparative data on multiple groups, studied over the same period, with comparable information collected on each group.

Aldrich and Waldinger (1990) stress the critical lack of comparative studies between ethnic and non-ethnic enterprises.

This study attempts to fill the above-mentioned gaps by studying the capital structures of Pakistani-owned small businesses and comparing these with the indigenous-(white Britons) owned small businesses in the UK. In the process of filling this research gap the study reviews the current research on the Asian small businesses in the UK.

### **1.3 Research Objectives**

The purpose of this research is to study the capital structures of Pakistani-immigrant-owned small businesses in the UK. The study compares the capital structures of Pakistani-immigrant-owned small businesses with the indigenous-owned small businesses. The research is based on a study of travel agents in the London, and Birmingham areas over a period of seven months in 1995.

There are five main objectives of this research which will be achieved by comparing the Pakistani-immigrant-owned and indigenous-owned travel agents.

1. To explore the sources of finance used by the Pakistani-immigrant travel agents during the stages of their business life-cycle and to compare these with indigenous travel agents.

2. To establish an understanding of the role played by Rotating Savings and Credit Associations (ROSCA) as a form of informal capital.
3. To bridge the gap between knowledge of network typologies and their role in the formation of capital structures of small businesses.
4. To explore the role played by the family in providing cheap labour, and assistance in achieving an optimal capital structure for a small business.
5. To develop a model of tendencies in immigrant small businesses which will enhance our understanding of the various stages that businesses in general go through and the role played by different sources of finance at each stage of the business life cycle.

#### **1.4 Organisation of the Thesis**

The study is divided into nine chapters.

Chapter 2 outlines a comprehensive review of small-business finance. It begins by establishing the definitional framework for the immigrant small business. A theoretical framework for immigrant business finance together with a theory of small business finance is then outlined. An extensive review of immigrant small business research is undertaken, and finally the capital structures of immigrant small businesses are discussed.

Chapter 3 provides a critical review of the role that migrant networks play in financing immigrant small businesses. Different network typologies in business support are outlined to develop an understanding of the community/familial networks.



Chapter 4 identifies the focus of the study by addressing the research question, hypotheses, objectives, the research context, and the research design.

Chapter 5 outlines the methodology of the fieldwork. It starts by describing the research sample. The various methods used in the collection of the data are discussed and the various techniques used are explained and justified.

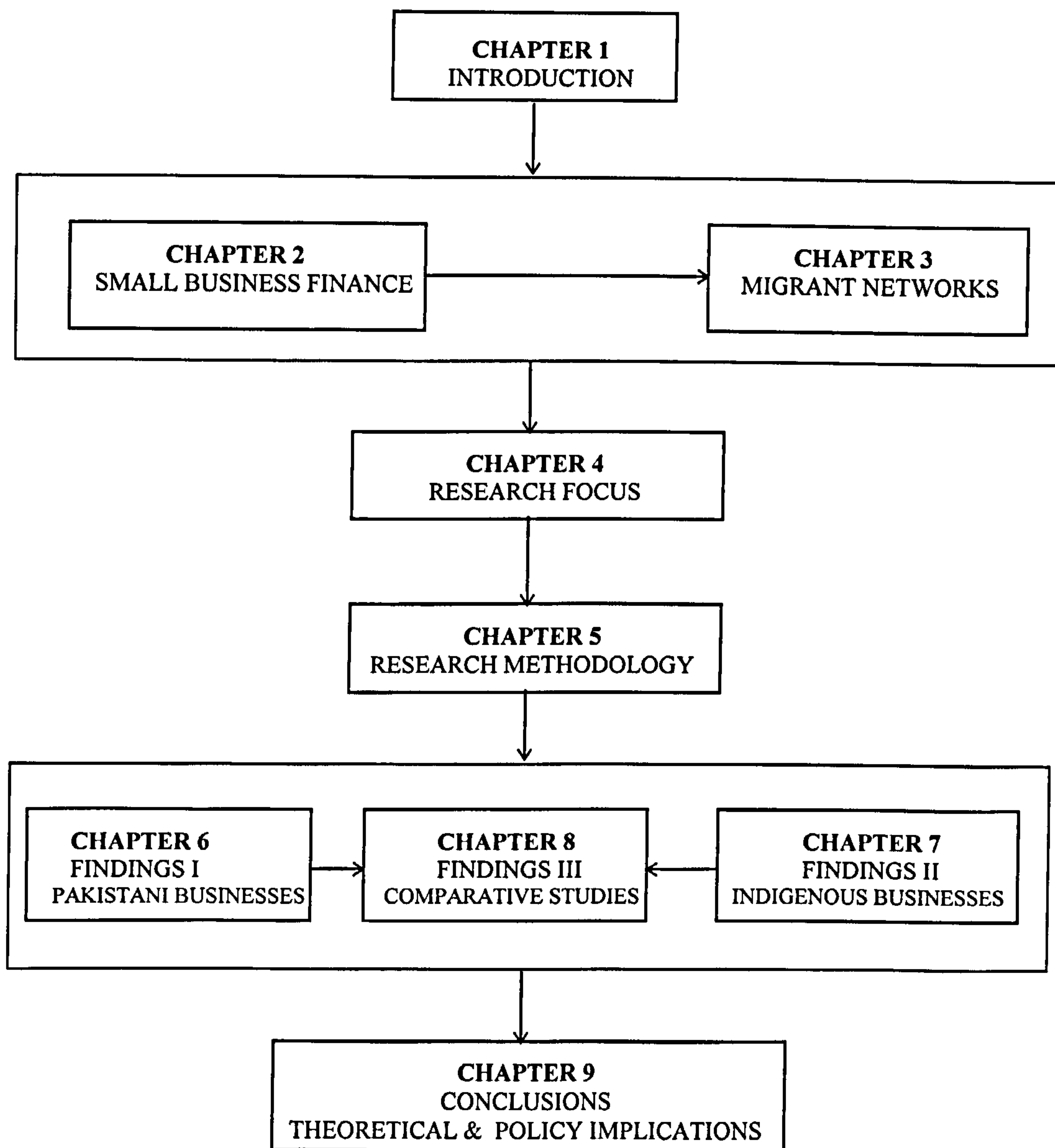
Chapter 6 discusses the findings of this research relating to the Pakistani-immigrant-small businesses. It describes the capital structures of the businesses together with the role played by community/familial networks in mobilising their finance.

Chapter 7 discusses the findings relating to the capital structures of the indigenous businesses and the role played by community/familial networks in mobilising their finance.

Chapter 8 compares the findings of this research and its wider implications to other types of small businesses owned by the two groups in question.

Chapter 9 provides conclusions to the research by highlighting the research findings, its contributions, the research limitations, the direction of future research, and the methodological and policy implications.

**Figure 1.1:** A schematic representation of the organisation of the thesis.



## **Chapter 2**

### **Review of Literature on Immigrant Business Finance**

#### **2.0 Introduction**

The objective of this chapter is to review the existing literature on immigrant small business finance. Therefore the chapter begins by defining small business in a way that can be applied in this study. Then the background to the existing body of knowledge on immigrant business research is summarised and the literature on immigrant businesses in the United Kingdom is reviewed. Finally, the theory of finance literature, in particular on capital structures, is critically evaluated in terms of its value for research on small business finance. Thus the main theme of this chapter is to establish a theoretical perspective to study the capital structures of Pakistani-immigrant owned small businesses and to draw comparisons with indigenous-owned small businesses.

#### **2.1 Small Business Definitional Framework**

There is little consensus on what constitutes a small firm and it is easier to recognise than to define (Mason 1987). What might be a small firm in the chemicals or cement industry would be a large firm in the engineering industry, yet within their respective industries they will probably face many common problems because of their lack of size relative to the size of the industry itself and the market it serves. The definitions used by government departments vary from being based mainly on employment and on turnover to the size of the premises and the size of exports or profits (Storey 1985). Indeed most countries adopt different definitions, while a single definition is rarely

appropriate for all purposes or all sectors of the economy. The Bolton report in 1971 described a small business as follows:

- \* In economic terms, a small firm is one that has a relatively "small share of its market".
- \* It is managed by its owners or part owners in a "personalised" way, and not through the medium of a formalised management structure.
- \* It is independent in the sense that it does not form part of a larger enterprise and that the owners/managers should be free from "outside control" in taking their principal decisions.

The Bolton committee was unable to use its definition to examine the size and structure of the small firm sector and was instead obliged to use a statistical definition based on three quantitative indicators: number of employees, turnover and number of vehicles (Mason 1987).

**Table 2.1: The Bolton committee's definition of small firms**

<b>Industry</b>	<b>Statistical definition</b>
Manufacturing	200 employees or less
Retailing	£50,000 p.a. turnover or less
Wholesale traders	£200,000 p.a. turnover or less
Mining/quarrying	25 employees or less
Motor trades	£50,000 p.a. turnover or less
Construction	25 employees or less
Miscellaneous services	£50,000 p.a turnover or less
Road transport	5 vehicles or less

Source: Adopted from Bolton 1971

Following the Bolton Committee there have been a number of criticisms of both its 'economic' and its 'statistical' definitions. Taking the 'economic' definition first, the Bolton criterion that a small business is 'managed by its owners or part owners in a personalised way, and not through the medium of a formal management structure' is



almost certainly incompatible with its 'statistical' definition of small manufacturing firms which have up to 200 employees. Whilst Bolton recognised that some smaller firms may have one or more intermediate layers such as supervisors or foremen to interpret their owners/managers' decisions and transmit them to employees, it still regarded small firm owners as taking all the principal decisions and exercising the principal management functions. The second questionable aspect of the Bolton 'economic' definition is the emphasis upon the inability of the small firm to affect its environment - most notably its inability to influence, by changing the quantity which it produces, the price at which a product or service is sold in the market place. In this respect Bolton is influenced by the economist's concept of perfect competition. In practice, however, many small firms occupy 'niches'. They provide a highly specialised service or product, possibly in a geographically isolated area and often do not perceive themselves to have clear competitors. As a result, in the short and possibly medium term, they can maintain higher prices and higher profits than the general industry 'norm'. Bradburd and Ross (1989) show that, in the USA, while large firms are generally more profitable than small, in heterogeneous industries - where niches are more likely to exist - this relationship is reversed.

Despite having the advantage of clarity, the quantitative definition is nevertheless arbitrary (Burns 1990). Some appreciation of the specific definitions relating to government assistance can be gained from the listings contained in Table 2.2.

**Table: 2.2: Definitions of small firms in the UK**  
**Specific definitions relating to government assistance**

<b>Type of assistance</b>	<b>Definition (upper limits)</b>
European Investment Bank Loans	500 employees
Proprietary Company (proposed)	50 employees
Employment Act Exemptions	20 employees
Rural Development Commission	20 employees (Skilled)
Export award	200 employees
Export visits	200 employees
Employment subsidy	200 employees
Computer-aided production management	500 employees
Manufacturing Advisory Service	1,000 employees (min 100)
Companies Act disclosure exemption	£1 million pa turnover
Proprietary Company (proposed)	£1.3 million p.a turnover
Value Added Tax registration	£15,000 pa turnover
Price code exemptions	£1 million manufacturing p.a turnover
Competition Act exemptions	£5 million pa turnover
European Investment Bank Loans	£20 million (fixed assets)
Industrial Development Certificates exemption	50,000 square feet
Office Development Permits exemption	30,000 square feet
Proprietary Company (proposed)	£650,000(balance sheet total)
Small Exporter Policy	£100,000 export value
Corporation Tax reduced rate	£80,000 profits

Source: M.E. Beesley and P.E. Wilson (1981),  
 Government Aid to Small Firms in Britain, UKSBMTA Conference Paper, London

To make matters worse, different departments in the UK provide different definitions of small firms. The 1985 Companies Act distinguished between small-and medium-sized businesses by defining three sets of criteria: turnover, balance-sheet totals and average weekly number of employees.

**Table 2.3: Small and Medium-sized businesses**  
**Companies Act 1985 criteria**

<b>Business criteria</b>	<b>Upper limit of statistical conditions</b>		
	<b>Turnover</b>	<b>Balance sheet</b>	<b>Average no weekly employees</b>
<b>Business size</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
Medium	5.75	2.8	250
Small	1.40	0.7	50

Source: Companies Act 1985

Storey (1995) is very critical of the Bolton Committee's 'statistical' definitions of small firms, and highlights five major issues which we believe also apply to the Companies Act definitions since their roots are embedded in the Bolton Committee definitions.

The first is that there is no single definition, nor even any single criterion of 'smallness'. Instead, four different criteria are used in the definition - employees, turnover, ownership and assets.

The second criticism is that three different upper limits of turnover are identified for the different sectors, and two different upper limits of employees are identified. These make the definitions too complex to enable comparisons to be made, either over time or between countries.

The third criticism of statistical definitions based upon monetary units is that they make comparisons over time very difficult, since appropriate index numbers have to be constructed to take account of price changes. They also make international comparisons more difficult, because of currency-value fluctuations.

Fourthly, there are problems with employee-based criteria in comparing small and large firms over time. As Dunne and Hughes (1989) point out, output per head in constant prices varies according to firm size.

The fifth criticism of the Bolton Committee definitions is that they treat the small-firm sector as being homogeneous. Even though the Committee, in its text, explicitly recognised that this was not the case, its statistical definition for the smaller firm implies the existence of homogeneity.



To overcome a number of these problems, following the lead of the European Commission, the term 'small and medium enterprise' (SME) has been coined. The SME sector itself is disaggregated into three components:

micro-enterprises:	those with between 0 -9 employees
small enterprises:	those with 10-99 employees
medium enterprises:	those with 100-499 employees

In almost all senses the Economic Community (EC) definitions are currently more appropriate than those of the Bolton Committee.

The EC definitions are exclusively based upon employment, rather than a multiplicity of criteria.

The use of 100 employees as a small-firm limit is more appropriate, given the rises in productivity which have taken place in the last two decades.

The third benefit is that the EC definition recognises that the SME group is not homogeneous, in the sense that distinctions are made between micro, small and medium-sized enterprises (Storey 1995).

Binks and Coyne (1983) point out that a rigid definition of the small firm is potentially misleading because of its great variety. Therefore they suggest that 'the choice of a definition always depends on the purpose to which it is to be put ..... and if one is concerned with financial provision and the support small firms receive from banks and other financial institutions, the value of assets, sales or some other financial measure may be more appropriate'. They further add that comparative

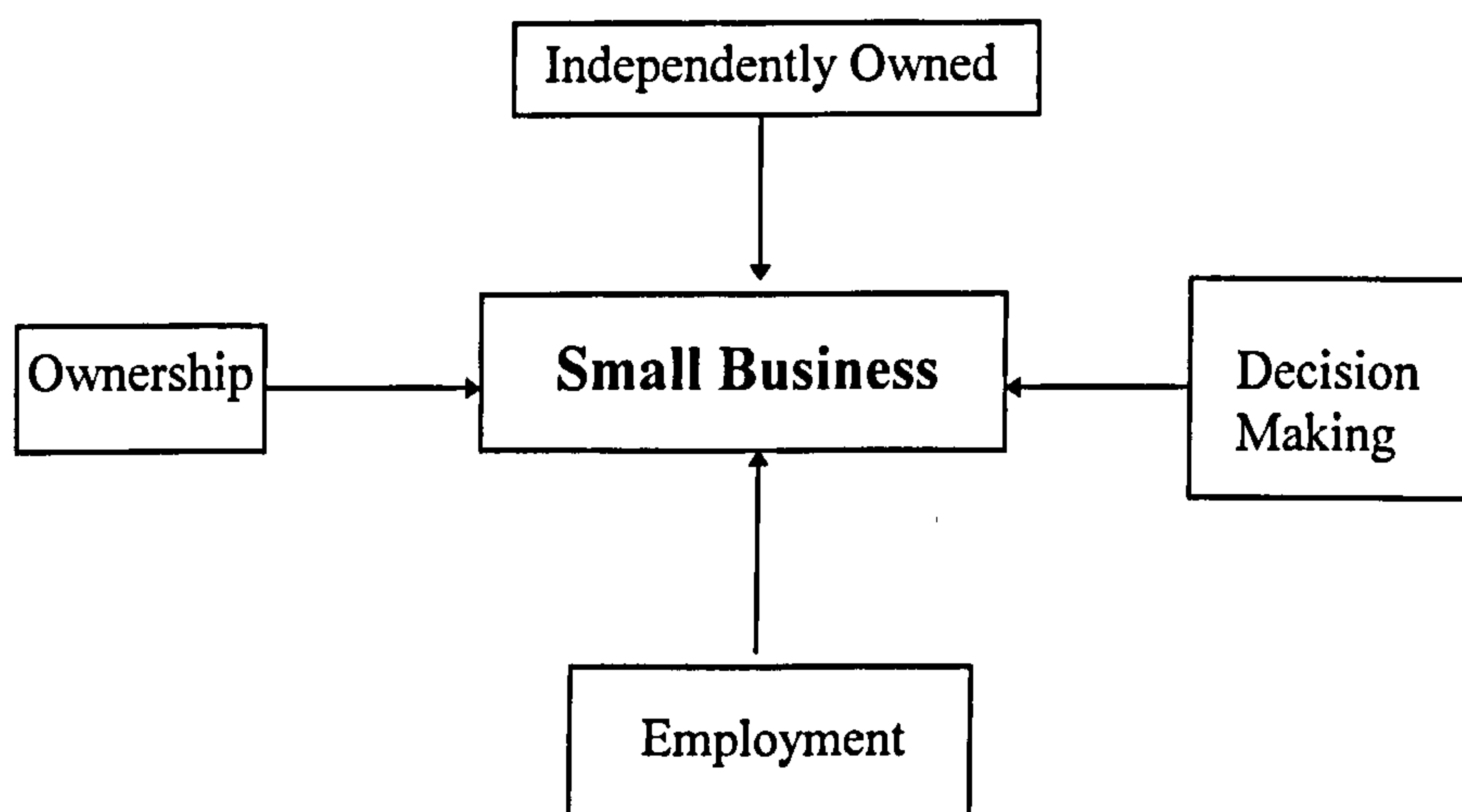


research has also to be guided by the more practical consideration of the form in which the required data is held and the form official statistics take. Harper (1984) suggests that 'the scale of a business needs only to be defined for a specific purpose, and there is no point in attempting to produce a universally or even a nationally acceptable standard'.

Given these problems with official definitions of a small firm, the research community has attempted to resolve these difficulties by adopting an approach to adjust a definition according to the particular topic of the research. According to Storey (1995) since there is no uniformly satisfactory definition of a small firm, researchers are likely to have to continue using their own definitions of small enterprises which are appropriate to their particular 'target group'. Therefore for the purposes of this research the small business is defined as:

**“Independently owned, managed by its owners or part-owners making all business decisions and employing 20 or less people”.**

**Figure 2.1 Small business working definition**



## **2.2 Theoretical Framework for Immigrant Business Research**

Pakistani cash-and-carry wholesalers in Glasgow, Surinamese coffee shops in Amsterdam, Polish sausage-makers in Stockholm, Korean grocery stores in New York and Indian motels in the Southern States (USA), are all signs of the phenomenon of immigrant businesses. The growing tendency for immigrants to find niches in the small-business sector of advanced Western economies is occurring, it should be noted, at a time when recession, reduced industrial competitiveness and labour-shedding through the introduction of new technology have been producing levels of unemployment not experienced for several decades.

The presence of immigrant entrepreneurs can in most cases be traced back to the search for labour to aid post-war economic reconstruction in Western Europe and North America. Vacancies at the bottom of the job hierarchy have regularly been filled over the past 40 years by importing labour, whether former colonial subjects, refugees (from East Africa to Britain, from Vietnam to France) or free labour moving within the European Community (in particular from southern Italy to north-west Europe). With economic restructuring and the prospect of discrimination in access to jobs in the primary sector of the labour market - also hard-hit by economic change - earning a livelihood is increasingly conditional on the emergence of immigrant enterprise (Waldinger, Ward and Aldrich, 1985).

According to Ward (1987), the growth of immigrant-owned businesses cannot be seen simply as a reflex action in response to contraction in the labour market. There are both empirical and theoretical grounds for concluding that a variety of additional

factors have helped to structure the pattern of such enterprise. With this in mind, the aim here is to establish a theoretical framework for immigrant economic behaviour.

There are five basic research frameworks that classify the economic behaviour of migrants in host societies: cultural values theory (1956); middleman minority theory (1967); opportunity structure approach (1976); ethnic enclave theory (1980); and interactive theory (1984). Although there are overlaps among these theories, they have each produced a separate body of literature.

The *Cultural Values theory* has two streams of argument. Caudill and Devos (1956) suggest that immigrant minorities bring from their homeland individual traits and behaviour patterns which aid them in moving from low-paid jobs to small business positions. In this vein, the entrepreneurial drive the Korean immigrants to the United States have displayed may be a result of “state centralism in both pre-industrial and contemporary Korea, which bred marginality and individualism within a class of first-generation urbanites, and the value structure common to Confucianism and Protestantism, both of which emphasise self-abnegation and self-control and thereby reinforce the drive for small business gain” (Waldinger et al; 1985).

Alternatively, Light (1972) proposed that immigrant groups were able collectively to organise the resources needed to establish small businesses due to the solidarity arising from kinship and ethnic community ties. Light (1980) refines this theory by differentiating between “orthodox” and “reactive” solidaristic traditions. Orthodox traditions are those traditions which were present in the group before emigrating. Reactive solidaristic traditions are those which involved patterns of behaviour arising in response to the situational condition of the immigration. The rotating credit

associations of Asian immigrants displaying group solidarity is an example of orthodox tradition while the clan and family groups which supported the Chinese immigrant sub-economy in the United States in the early twentieth century is seen as a reactive tradition (Waldinger 1986).

The cultural values theory is open to criticism on several counts. The theory does not adequately consider the economic environment in which the immigrant businesses operate. The theories can also be analysed in their “soft” and “hard” forms. The hard form is concerned with those entrepreneurial values of a belief system independent of a group’s economic role. The soft form considers the values of immigrants as an adaptation to the conditions of a group prior to emigration. We believe that this theory is more suitable when studying the characteristics of immigrant entrepreneur, their motivations for entering into business, their drive to make the venture a success, and that it does not offer an appropriate framework when studying the capital structure of businesses.

The *middleman minority theory* which is related to, or derived from, other social phenomena such as middle-man trading peoples, migrant intermediation, marginal trading peoples and permanent minorities, has traditionally been associated with pre-capitalist societies (Armstrong 1976).

The middleman minorities concept was developed by Blalock (1967). Using a peasant-feudal society he describes the middleman minority as individuals who occupy an intermediate position due to some competitive advantage or high adaptive capacity. Special occupational niches may develop due to a combination of circumstances and a cultural heritage which has been used as an adaptive mechanism



over a period of time. In this scenario the middleman, who may for example be the merchant bargaining over prices, symbolises the manufacturing elite and, although weak in power, has general status and income above the subordinate masses.

Using groups such as the Chinese in Southeast Asia, the Jews in Europe, Armenians in Turkey and the Asians in East Africa, Bonacich (1973) extends the application of the middleman minority theory to the contemporary world. Two conditions cited as necessary are that of sojourning and the culture of origin. Sojourners exhibit solidarity by forming their own communities, they usually marry within their own group, segregate themselves residentially, establish language and cultural schools for their children and cling to their cultural and religious traits. The host society exhibits hostility because of the incompatible goals and conflicts of the middleman minority and their clientele due to the split labour market. This can lead to forced segregation by the host and ethnic antagonism (Bonacich 1972).

Bonacich and Modell (1980) in their study of Japanese immigrants in the United States describe their relatively quick entry into small-scale, speculative agriculture and food retailing and wholesaling in California as an example of the middleman minority phenomenon. Ward (1985), in Britain found that although Asian immigrants with successful businesses display elements associated with middleman minorities, sojourning does not appear to be a characteristic.

Waldinger (1986) criticises middleman minority theory on several grounds. The theory does not adequately differentiate between those immigrant businesses which can be classified as middleman minority phenomenon and those which do not belong

to this category. It also postulates a simple interaction between middleman minority solidarity and host antagonism. This relationship is not supported by middleman minority responses to host-society hostility, nor by host-society reactions to middleman minority activities. The relation between sojourning and self-employment has not been explored in depth and remains unclear. Also, there is little evidence that ethnic solidarity excludes the possibility of business expansion or the employment of outsiders, as the theory implies.

The sojourner concept suggests immigrants would be less inclined to set up a business as it represents a greater risk and commitment than wage-employment, and may impede the return to their homeland. It therefore appears logically flawed to use sojourning as an explanation of the high incidence of immigrant business. Since the theory is concerned with middle-man trading peoples, marginal trading peoples and permanent minorities, none of which fits the description to Pakistanis in Britain, this theoretical framework is also considered inappropriate for the purposes of this study.

The *opportunity structure approach* provides a broad explanation of the involvement of minority groups in small business. Contained within this approach is the theory of ecological succession. The theory involves several assertions:

Opportunities for minority enterprise lie mainly in industries where entry is easy and the risk of failure is high.

Immigrant business is most likely to develop where there are vacant business places in which immigrants are capable of succeeding. These vacancies are likely to be in activity areas where:

- a) low status and rewards, or higher opportunity costs, may deter other potential entrepreneurs, and/or
- b) changes in the neighbourhood ethnic composition (ecological succession) result in a decrease in the pool of native entrepreneurs, and given the natural attrition of small businesses due to a relatively high failure rate, create openings into which immigrant business people may move (Waldinger 1987).

Ethnic consumer products provide the initial market which can extend to the entire ethnic community. Immigrants often have special needs and preferences which cannot be filled by native-owned businesses; clothing, food and religious books are among some of the examples. This gives rise to a protected market (Light 1972). Also, immigrant-adjustment problems like language difficulties can be better tended to by ethnic businesses. Chained migration patterns can lead to the building up of ethnic residential areas (Anwar 1979; Werbner 1984; Shaw 1988), further increasing the protected market.

Non-ethnic markets also provide the opportunity for minority-business establishment or growth. However, these opportunities are restricted to industries which do not feature extensive scales of economy and high entry costs. Markets which have low economies of scale and are not capital-intensive or do not contain high-volume competition are another area open to immigrant business. These businesses can

successfully exploit themselves by providing the same products but different services such as longer hours, year-round operation, small-quantity sales and easily available credit.

Another niche for immigrant businesses lies in markets which are unstable or uncertain. While stable and certain markets may be dominated by larger firms, small firms cater for unpredictable and/or fluctuating market demand. An example of this is the garment industry where immigrant firms are able to adapt to short-run products (Waldinger 1986a).

Given markets and business opportunities, the opportunity structure theory states that potential ethnic entrepreneurs also need access to ownership positions. This access is influenced by the level of inter-ethnic competition for jobs and small businesses and the policies of the state affecting small business (Waldinger 1986; Aldrich and Waldinger 1989).

The supporters of this theory assume that all business owners are similar, regardless of their background. With such a claim the need for studies undertaking comparative analysis among groups need not arise. This obviously not being the case, and due to the comparative nature of our study, it is considered inappropriate to adopt this theory.

The study by Wilson and Portes (1980) of Cubans in Miami pioneered research into the theory of *ethnic enclaves*. They define an “ethnic enterprise” as a firm of any size owned and managed by members of an identifiable cultural or national minority and “ethnic enclave” as a concentration of such firms in a physical space employing a significant proportion of workers from the same minority. The results of the study



indicated that classic theories of assimilation into a unified economy and the more recent dual labour market theories, have limited applicability in understanding the nature of an enclave labour force. The existence of immigrant enclaves requires the presence of immigrants with sufficient capital and initial entrepreneurial skills as well as a regular supply of enclave labour through sustained migration. The inferences drawn by these authors are:

the low-wage labour of immigrant workers permits the survival and expansion of enclave enterprises which creates new opportunities for economic advancement, and

the immigrant entrepreneurs use language and cultural barriers, and ethnic affinities, to gain access to markets and sources of labour, but in return must then hire immigrants if possible and support other immigrants in economic ventures.

It is suggested that immigrant business development occurs when immigrant firms are linked in related input, output and labour markets through an enclave economy (Wilson and Martin 1982; Wilson and Portes 1980). Aldrich et al (1981) in their study of Asian immigrants in three British cities suggest that Asians overcome the disadvantages of being a minority group by developing self-contained structures insulated to a large extent from external pressures. However, in doing so the segregated markets which shield them from white competition also create a commercial disadvantage.

Wilson and Martin (1982) found that the Cuban community in Miami, unlike that of the Blacks, made up an enclave economy of small businesses which collectively were vertically and horizontally integrated. Portes and Bach (1985) also studied the labour-market experience of Cuban refugees in Miami. Although some Cubans were employed within the enclave business sector and others external to it, they suggest the reasons for the creation of an enclave are that immigrants tend to lack:

the necessary local knowledge and language skills, and

lack specific work skills, or have work skills which are not needed.

Aldrich et al (1985) suggest that socially segregated ethnic enclaves are a form of protected market, which can be supported by both ecological as well as cultural forces, i.e. the culturally based tastes of ethnic minorities. Their results strongly suggest that cultural and ethnic identity factors must be taken into account when explaining business patronage patterns.

Portes and Manning (1986) consider another contemporary example of an ethnic enclave, in the Korean immigrants to the United States, of whom 60 per cent have settled in Los Angeles. Their summary description of the characteristics of immigrant enclave economies includes:

a substantial number of immigrants with business experience in their former country

sources of capital being savings and pooled savings, with initial sums required usually being small, and

sources of labour being found in the family and recent arrivals.

Light (1979) attributes the high level of business ownership and management of the Korean immigrant to the disadvantage of not speaking English. However, Bonacich, Light and Wong (1977) attribute the high level of Korean involvement in small business as a reaction to the commercial vacuum due to the use of monopoly capitalism and the subsequent decline in small business.

Waldinger (1986) states that the ethnic enclave approach is important in understanding ethnic business. In particular it asserts that the mobility and wage-attainment processes for immigrant enterprises may differ from those of native enterprises operating in similar labour markets. It also highlights the long-term potential of the ethnic sector in leading the immigrant population to economic progress. The theory shows weakness in that it describes how the ethnic business sector may appear at a point in time rather than offering an explanation of ethnic business development.

The weakness of this theory is overcome in our study that seeks an explanation of the sources of finance used throughout the life-cycle of the business. Furthermore, the theory also provides us with a framework to undertake a comparative study among indigenous-and immigrant-owned businesses. Therefore out of the five theories outlined here, this theory is most appropriately suited for the purposes of this research.

The *interactive theory* links the structure of economic opportunity to the economic and cultural resources of an ethnic group. The demand for small business activities



and the supply of established and potential business owners interact to create immigrant small business. The demand for small business is dictated by the economic environment which is influenced by those factors already considered in the opportunity-structure/ecological-succession approach, i.e. small market size, heterogeneity of market, instability or uncertainty of the market and low economies of scale. The supply of ethnic small business is influenced by the informal resources of the ethnic population. These informal resources include family and community ties which ensure a supply of ethnic labour and a set of understandings regarding appropriate behaviour and expectations within the workplace. In this situation ethnic business owners can compete favourably with native proprietors (Waldinger, Ward and Aldrich 1985).

The interactive theories approach originates from a series of industry case studies conducted mainly in New York (Waldinger 1984, 1985; Mars and Ward 1984). These studies show that the typical immigrant business had an advantage in its organisation and recruitment of labour with the extended kinship and friendship networks sharing in ownership and managerial responsibilities. In the hiring of excess labour needs, the network served to reduce the cost and risk associated with taking on new staff for the business because of the flexible job definitions and their multi-task orientation. Paid family members were often involved in all family aspects of the business which promoted training in managerial skills and the establishing of business contacts. In the area of industrial relations, workers often received less than the industry average (in some cases less than the legal minimum wage), worked under inferior conditions and rarely received benefit packages.



The supply of ethnic small business may also be considered in the light of premigration characteristics, the circumstances of migration, and post-migration characteristics (Waldinger 1986).

The pre-migration characteristics include those informal ethnic resources (which overlap with the cultural approach) already considered, as well as factors such as skill level, language competency and the level of urbanisation and industrialisation in the country of origin. In considering the circumstances of the migration, factors such as whether the migration is temporary or permanent influence the human capital brought into the host country (Aldrich et al 1989). The difference between temporary immigrants (sojourners) and permanent settlers is an important condition of mobility and integration into the host society (Mars and Ward 1984). Permanent settlers may have a positive effect on the chances of immigrant business success while blocked mobility to the labour market due to age, skill and language disadvantages, may also lead immigrants to set up in small business (Waldinger 1988). Post-migration characteristics include factors such as economic and occupational position as well as the level of discrimination existing in the host society.

The interactive theory approach presents a dynamic perspective of the linkages between opportunities and behavioural patterns and aspirations of an immigrant group. The theory puts forward a number of arguments which collectively have intuitive appeal as an explanation of the success of ethnic enterprise. Since this study is neither concerned with success/failure rates of small businesses nor with establishing the linkages between opportunities, behavioural patterns and aspirations

of immigrant groups, it is considered inappropriate to use here the interactive theory framework.

Having outlined the five theories of immigrant business, an attempt is made here to show their application in various studies conducted by the small-business researchers.

Table 2.4 represents the ethnic small-business research by theory and author.

**Table: 2.4: Approaches to immigrant/ethnic/minority businesses**

<b>Theory/ Author</b>	<b><u>Cultural Values</u></b>	<b><u>Middleman Minority</u></b>	<b><u>Opportunity Structure</u></b>	<b><u>Ethnic Enclave</u></b>	<b><u>Interactive Theory</u></b>
Caudill and De Vos (1956)	Japanese in the USA				
Kim (1981)	Koreans in New York				
Bonacich (1973)		Chinese in SE Asia Jews in Europe Armenians in Turkey Asians in East Africa			
Bonachich and Modell (1980)		Japanese in California (USA)			
Ward (1985)		Asians in Manchester & Newcastle			
Aldrich and Reiss (1976)			Blacks in Boston Chicago & Peurto Ricans included Washington D.C (USA)		
Aldrich (1980) Pilot Study			South Asians in Wandsworth (UK)		
Aldrich et al (1983)			South Asians in 3 UK Cities		
Wilson and Portes (1982)				Cubans in Miami	
Wilson and Martin (1982)				Cubans in Miami	
Portes and Bach (1985)				Cubans in Miami	
Portes and Manning (1986)				Cubans in Miami	
Waldinger (1984)					Hispanics in New York's garment trade
Yousuf (1996)				Pakistani businesses in 2 cities (UK)	

These theories provide an acceptable framework for explaining the economic behaviour of immigrant businesses. However, much of the theoretical work discussed above has stemmed from studies conducted in the USA. There are only a few studies conducted in the UK on the economic activities of immigrants. One notable difference in table 2.4 above is that the literature from the USA focuses on individual immigrant groups, i.e. Cubans, Koreans, and Japanese, whereas the few studies conducted in the UK have been on “Asians” which is a composite-term for many different immigrant groups, i.e. Indians, Bangladeshis, and Pakistanis (even if it is assumed that these are unified ethnic groups). Such research findings can be misleading when dealing with individual immigrant groups in their own right. Since under the label of Asians there are further classifications on the basis of culture, religion, caste, and migration characteristics, the economic activities of each group are also formed through different routes. Therefore considerable care is required in the applicability of the results obtained by such studies. This research undertakes to compare the Pakistani-immigrant-owned small businesses with the indigenous-owned small businesses in the service sector (travel agents). The starting point is to review the existing literature on immigrant businesses in the UK.

### **2.3 Literature Review - Immigrant Small Business Research in the UK**

#### **ASIAN BUSINESSES IN THE UK:**

Cater and Jones (1978) studied Asian businesses in Bradford. They point out that the large, vigorous and successful industrial and commercial firms described by Forester (1978) are not typical of the majority which are small retail outlets, 'under-capitalised and frequently unprofitable, classic cases of the marginal firm.... largely confined to



branches of the economy and sections of the city which are being abandoned by whites as undesirable and unrewarding'. They emphasise the self-protective self-segregation by Asians there, socially, culturally and commercially, and their 'excessive reliance upon the Asian consumer market'.

McEvoy et al (1978) studied some 300 Asian and 300 white businesses in Bradford, Leicester and Ealing. They found that group solidarity in the Asian community was an important commercial stimulus. According to them Asian businessmen are favoured by a track record in business - and family involvement in business is pervasive - but they questioned the success of Asian businessmen, particularly in the light of limited market opportunities in the wider economy, and pointed out their personal abilities and educational achievements as well as their ownership of small, low order business ventures. They concluded that the energies and abilities of the Asian businessmen were wasted, merely serving to confirm that self-employment represented a second-class status for the owner/manager.

Mullins (1979) interviewed about 100 Asian retailers in Croydon and found that only 5% were mainly dependent on Asian customers. According to him, Muslims who tend to specialise in Asian goods and services locate themselves in Asian areas. Most Asian businessmen in Croydon are in fact Hindus, many of whom had businesses in East Africa before coming to Britain (in fact 90% of retailers in the survey had been established since 1970). Furthermore, Mullins reported that Asians have found it hard to penetrate the central Croydon shopping area because of high rents and a 'separate market' for premises, i.e. operated by Central London property agents. The few

traders who have obtained prime sites have all been Hindus with a commercial background.

Aldrich (1980) interviewed 74 Asian retail outlets in 1975 in Wandsworth where a large number of East African Asians had settled, and compared these with a parallel survey of 47 White retailers. Here Asians have expanded in business ownership in shops vacated by White owners in areas where white residence is declining and which tend to be areas of commercial deterioration (limited market opportunities in the wider economy) . He claims that Asian shopkeepers are not located in premises of worse condition than equivalent white businesses, though they do tend to work longer hours and employ more family members than whites. The survey demonstrates, as in Croydon (Mullins 1979), the lack of reliance on an ethnic market. In Aldrich's survey Asian shopkeepers estimated that they served a 60% white market on average, which was not significantly different from the estimates made by white shopkeepers. Aldrich states that there was no significant difference between Asians and whites in the Wandsworth survey in their use of banks or lending associations as a source of capital. However, among those using these sources, whites achieved a significantly larger share of their capital needs than Asians. According to his survey 'Asians did not appear to be disadvantaged in the struggle for funds'. There is an inconsistency - Whites achieved a larger share of capital than Asians, though Asians were not disadvantaged - an assumption is made here that Asians needed less capital from the bank compared to Whites, and that Asians preferred to invest a higher level of personal savings. Aldrich's study does not reveal the capital structures of the businesses studied; only the sources of finance with the role of personal and bank finance are reported. There is a need to establish an understanding beyond the



identification of sources of finance to look into the percentage-amounts raised through each source, the total capital required and how the informal sources contribute to the capital structure. Our study attempts to address these issues left undealt by Aldrich's study. The focus of our study is to explore the sources of finance, the percentage of each source (informal and formal) used in the make up of the capital structure of the Pakistani-immigrant (as a group among Asians) businesses and to compare these with the indigenous businesses.

Ahmed (1981) studied the relationship between certain personality and situational variables and the career behaviour of a group of entrepreneurs and non-entrepreneurs from Bangladesh, resident in the UK. His work derives variables from the entrepreneurship and creativity literature. The need for achievement, risk-taking propensity, and the need for autonomy, power, control and creativity, were important, but socio-cultural variables such as family tradition in business and marginality were not important in becoming an entrepreneur. He found that the entrepreneur usually starts his business between the ages of 25 and 29 years. Furthermore, he reported that the management practices of these entrepreneurs were based on 'ad hoc management' and 'guess-work' and the relationship with the employees was reported to be authoritarian and non-participative.

Brooks (1982) studied Black businesses (Afro-Caribbean, Asian) in Lambeth (also known as "the Lambeth study"). The survey covered 33 Afro-Caribbean, 70 Asian and 100 White businesses. All the firms interviewed (except one) were very small retailing or service operations, each employing on average four persons. The study claimed that "Afro-Caribbean" businesses had more problems than "white" ones in

obtaining loans from their banks at the start-up stage. The study also reported on the motivations for starting a business. The Afro-Caribbean group was motivated by "push" factors (redundancy, dislike of previous job and the inability to find alternative employment) rather more than the Asian and White businessmen. According to Brooks, banks are mentioned as the source of start-up capital most frequently used by the Asians, and to lesser extent by White businessmen; but for the Afro-Caribbean businessmen banks are not a very significant source of finance. The study also reported on the chances in obtaining finance after the business is set up. For the Afro-Caribbean businesses 4 in 10, compared to about 9 in 10 for Asians and Whites, were better placed in obtaining a loan. The study found that Asian businesses appear to be nearly as successful as White businesses in getting development loans, which is partly due to the existence of Asian banks who seem to be more willing to lend than the clearing banks. This confirms Aldrich's (1980) finding that Asians did not appear to be disadvantaged in the struggle for funds.

However, Aldrich (1980) studied these businesses at their maturity stage, where it is easier to obtain development finance due to the stable nature of the business. Similarly, Brooks (1982) only reports on development loans from Asian banks and does not address the wider issue of the sources of finance throughout the life-cycle of the business. Indeed, there is a body of literature supporting the widely accepted view that it is easier for any business, indigenous-or immigrant-, to obtain development than start-up finance. Our contention here is that it is misleading to study and inappropriate to report the finance behaviour of a business from only a particular stage of its life-cycle, since this only offers a partial understanding of the finance behaviour



and cannot be generalised as the same across the life-cycle of the business. Therefore this study explores the sources of finance used at the various stages of the business life-cycle.

Wilson (1983) undertook a study for the Borough of Brent and studied the nature and extent of the special problems of Asian and Afro-Caribbean businesses, evaluating their impact as barriers to entry into business and as constraints on the growth of established firms. In his sample he studied Asian retailing firms of four years age which were either sole-traders or partnerships and out of 120 (Afro-Caribbean and Asian firms) 17 (14.2%) were Limited Liability companies.

Among other characteristics (employment, premises, location, customer base, turnover, sources of advice, expansion, racial discrimination, educational attainments of owner/managers, age of owner/managers, control of firm) he reported that these businesses faced firstly market-related problems, followed by council rates, the availability of finance and then inadequate premises. He concludes by identifying the constraints on access to finance as a disadvantage to Asian businesses, although the firms in his sample had a high incidence of bank borrowing. In his study the Asian group used bank finance at all stages in accordance with established borrowing patterns: at the start-up stage, term loans supplemented by overdrafts were common; at the development stage more use was made of overdrafts; and for future expansion, term loans and overdrafts were important. The raising of finance ranked sixth as the most important problem for the Asian group.

According to his study the role of the professional adviser (accountants) is central to the provision of information about sources of finance and assistance with approaches to the bank. He further concludes that the Asian business community had evolved financial intermediaries to counteract the market disadvantages thought to be suffered by small Asian firms. These intermediaries, acting as brokers, assist the firm in raising bank and other finance in return for a fee and the possibility of providing business services to the client in the future. The study also confirmed that the concept of overcoming inherent disadvantages by effecting introductions to the financial institutions is not new, but it has been effectively introduced into the Asian community. Whereas the intermediaries operate at an informal level, the more institutional Aga Khan Ismailia Council for the UK has developed its own form of intervention for the Ismailia Muslims. The Council offers business advice and provides a guarantee for approved bank loans to its constituents, implying their inherent disadvantage in capital markets.

Although Wilson provides a good picture of Asian and Afro-Caribbean retailing businesses in the Borough of Brent, the study assumes that all Asian and Afro-Caribbean groups are the same, and retailing businesses face the same problems as any other small business in any location in the UK. His study does not adequately address the issue of financing, for example no attempt is made to explore the total start-up capital required for a particular retail business nor the capital required since start-up is revealed. In contrast, our study aims to focus on the capital structures of Pakistani-immigrant-owned businesses and compares these with the indigenous businesses and as a result specifically addresses the sources of finance and their role in forming capital structures.

Aldrich et al (1981) studied Asian-owned businesses in terms of their concentration within Asian-dominated areas (Bradford, Leicester, Ealing). In their study they concentrated on the retail shopkeeper's customers and found that Asian shopkeepers are highly dependent upon the minority market for customers and it is this dependence which determines the level of business activity. It is hypothesised, for the purposes of this study, to be the case among the Pakistani-immigrant travel agents.

Wilson (1987) also, conducted a study to investigate and assess the role of family and co-ethnic group members in the growth of Asian and Afro-Caribbean firms. He focused on business growth during start-up and development phases. The study involved 25 businesses owned and operated by Asian and Afro-Caribbean entrepreneurs, 20 in London, three in Leicester and two in Birmingham. In his findings he reported that the principal business problems experienced by Asian and Afro-Caribbean entrepreneurs are centred on access to private and institutional sources of finance, access to other business resources including labour, premises, information, and access to profitable market opportunities. Outside financial resources in these businesses came from partners, friends or in the form of credit from suppliers. In his study 11 of the Asian firms benefited from assistance given by both the immediate and wider family, whereas only one of the Afro-Caribbean firms revealed any such family support. Among these 11 Asian firms, the main sources of support were brothers of the founder (4 cases), fathers (4) wife (1), uncle (1) and brother-in-law (1). In almost all cases, family support was in the form of cash, with personal guarantees being provided exceptionally. Outside the family, financial support tended to come from either business partners, friends or in the form of credit



from suppliers. Of the five Asian firms receiving non-family support at the start, two sought help from friends, two from suppliers and one from partners. The Afro-Caribbean firms relied heavily on partners: four out of the six sought financial contributions from their partners. On this evidence significant differences were found between the Asian and Afro-Caribbean firms in respect of the manner in which they financed their business activities from personal and other private sources. The former relied on immediate and wider family, whereas the latter appeared to compensate for a lack of family support by mobilising partners' funds.

The study claims that it is commonly believed that, lacking the extended family relationships to be found in the Asian group, the Afro-Caribbean entrepreneur's financing options are restricted. However, this study suggests that successful firms harnessed funds from a variety of private sources and that Asian firms in particular did not rely on extended family or wider group sources, preferring to finance the venture almost exclusively with close family support. Nevertheless their extensive trading experience in the Indian sub-continent, Africa or elsewhere and their continued links with family-operated businesses in their countries of origin (or countries of recent settlement) tended to facilitate business financing. This was reported not to be the case for the Afro-Caribbean business founder, who had neither strong familial trading links abroad nor close family in Britain with surplus financial resources to invest in their businesses.

Wilson concentrated on the growth strategies adopted by his sample, among which was one Pakistani-owned firm. He reported that the financial strategy was based almost exclusively on using personal savings and family sources at the start-up stage



and generating funds for expansion from profits, matched in most cases by bank borrowing. He did not report on the amounts raised through each source or the total capital required at start-up or since start-up. His study makes no attempt to establish an understanding of the informal sources of finance in particular community-based sources. The bank finance was not analysed with regard to the finance received through bank loan and bank overdraft. The data collected was only compared between the Asian and Afro-Caribbean businesses. In contrast, our study is unique in that it concentrates on the capital structures of only one Asian group, Pakistanis, and compares the capital structures of their businesses with the indigenous businesses. We also make an effort to relate these to the theory of finance instead of only mentioning the financial strategy as discussed by Wilson. Furthermore, our study also makes an attempt to establish a theoretical framework in which to study the immigrant-owned businesses.

Nowikowski (in Ward & Jenkins 1984) studied Pakistani entrepreneurs from a social class point of view, the Pakistani-immigrants' role in the White society, and worked on the hypothesis that "Asians in Britain might climb to socio-economic equality". The hypotheses of the study relate more to Sociology rather than Small Business literature.

Werbner (in Ward & Jenkins 1984) claims that it is a mistake to study immigrant entrepreneurs in terms of under-capitalisation and unprofitability. According to Werbner, "an exclusive focus on them may lead to study a completely mistaken assessment of an immigrant's entrepreneurial skills.....". Therefore Werbner studies immigrant entrepreneurship as a network of connected businesses and jobs generated

within a niche - which is defined as an "entrepreneurial chain". Werbner's study deals with the major transformations in ethnic groups (Pakistani entrepreneurs) and their relations with host societies (UK).

Rafiq et al (1985) studied 1,100 businesses in Bradford, 90% of which were small firms engaged in retailing, restaurants and food take-aways. Only 10% attended any type of business course although 50% showed an interest. The main problems faced by these firms were with the local council.

Khan (1987) studied the performance in the larger (incorporated) Asian-owned firms in Britain and focused particularly on their size and growth. He concluded that the average size of Asian-owned manufacturing firms is significantly smaller than the comparable average size of the UK-owned manufacturing companies.

Wilson and Stanworth (1987) compared 200 Asian and Afro-Caribbean businesses studied by them in 1982 and 1984. The businesses studied were involved in small manufacturing, retailing, and catering activities. The objective of their 1982 study was to identify the special problems facing Afro-Caribbean and Asian firms and their impact on business entry and growth. The 1984 study investigated the surviving firms and any new entrants in the same locality, focusing on the nature and extent of change in the two-year period, and the likely determinants of any revealed change. They reported the determinants of Asian advantage over Afro-Caribbean business as the availability of cheap family labour, cheaper and more plentiful finance from family and associates, ready availability of institutional finance, access to supplies and advice from co-ethnic businesses and access to premises and established businesses through community contacts.

Wilson and Stanworth (1987) studied non-institutional and institutional sources of finance. The total number of firms using each source was mentioned, but no mention was made of how much each source contributed to the total required finance. The cost of non-institutional finance was reported to be lower than institutional finance. The unique feature of this study, compared with the rest of literature reviewed, is that it mentions the amounts raised for initial capitalisation to start-up and also further finance sought during 1982 - 84. It is to be noted here that Jones et al (1994) experienced difficulties and failed to report on the amounts raised as start-up or post-start-up capital. Wilson and Stanworth (1987) closely relates to our study in the sense that they studied non-institutional and institutional finance at two different stages of the businesses. However, their study leaves gaps in the literature, firstly by not differentiating among different groups within Asian and Afro-Caribbean communities, and secondly, by not comparing either of the ethnic groups with the indigenous businesses. The study also lacks a theoretical framework - on ethnic businesses or theory of finance for example. This and an earlier study by Wilson (1987) studied businesses at the start-up and expansion stages, though neither study mentioned when the transition from one stage to the other takes place. Our study aims to fill these gaps by comparing the capital structures of Pakistani and indigenous businesses throughout their life-cycle. A more focused approach to these two groups, together with an attempt at establishing a theoretical framework, is expected to establish an in-depth understanding of the capital structures of small businesses owned by these two groups.

A survey by the Calderdale council conducted in 1988 provided a profile of Asian-owned businesses to help the council assess its policies towards businesses as these affected the Asian community. The survey identified 208 Asian-owned businesses

and was largely based upon interviews with 78 of the 196 retail and service businesses and 11 of 12 wholesale and manufacturing businesses. Among its conclusions (contribution to employment, potential for growth, current services, services needed, council services, racist attacks and vandalism) it reported that few Asian-owned businesses are dependent on the Asian communities for their sales. Most operate in the same market and under the same pressures as other businesses (implying White indigenous businesses). It is interesting to observe the opposite trend in this study compared to the study conducted by Aldrich et al (1981) where Asian businesses were dependent on the Asian community as their main customers.

Jones and McEvoy (1992) studied the genesis of ethnic minority businesses, their employment generation, and the constraints which they face. Their respondents included a non-ethnic minority (i.e. White, with European origin and the majority from the British Isles) as a control group. The ethnic respondents were from South Asian origin with their ultimate family origin lying in the Indian sub continent. This group included both immigrants and their British-born descendants, and also included people whose past included a personal or family period in an intermediate location such as East Africa or Malaysia. The study included a sample of Afro-Caribbean businesses. The study focused on Confectionery, Tobacconists, and Newsagents (CTN's), manufacturing, retailing, and catering trades.

Their study reported on the access to capital at start-up only. No attempt was made to study sources of capital throughout the life-cycle of the business. The only informal sources studied were personal savings, and loans from family and friends. The role of extended family or the community in financing businesses was not analysed. The role



of formal finance was also not studied in greater depth, for example the percentage finance raised through the banks did not identify the proportions from bank loans and overdrafts. The role of various sources of finance in forming the capital structures was not studied either. Furthermore, their sample was sporadic in terms of the respondents' background and as a result the findings of the study are not specifically about an ethnic group compared with the Whites, but is more of a comparison of immigrants with immigrants since individuals with a European origin may also be classified as immigrants.

Ram (1992) conducted a study which focused on markets, management and training within Asian firms as well as their relations with external support agencies. The study was undertaken in Wolverhampton; 50 interviews were conducted with Asian employers from a variety of sectors over a three-month period. The study concluded that racism in its various guises continued to have an impact, particularly in relation to the market. The management of most businesses was dominated by the family. The external support bodies have failed to make an impression on local Asian firms. Taken together the results of the study highlighted the fact that many Asian firms battle for survival and meagre opportunities within hostile markets and in the midst of continuing racial constraints.

Ram and Holiday (1992) conducted a study in order to explore the impact of the family culture on shop-floor processes. Their work focused on the ways in which the family influences different processes in small firms, namely management organisation and recruitment. Ram studied three Asian-owned clothing firms, and Holiday studied an all-women clothing manufacturer, an engineering company and an electronics

firm. Methods adopted for research included direct and participant observation and interviews. They concluded that the family is of considerable importance to the organisation of the workplace, but not simply as a cover-up for managerial autocracy on the one hand, nor a signifier of harmony on the other. Rather the family contains complexities and contradictions which mean that its dynamics at work will be contingent and negotiated.

Deakins, Hussain and Ram (1992) conducted a two-stage study with the aim of contributing to more detailed knowledge about the relationships between ethnic businesses and finance providers. They tried to explain why there might be low participation rates on certain schemes, or low involvement with some institutions, to identify the financial needs of ethnic businesses and to suggest ways of improving relationships. They interviewed, using a qualitative approach, 34 industrial ethnic small businesses, the majority of them in manufacturing. Conclusions drawn from this study confirmed the existing knowledge of financing practices among ethnic businesses, i.e. "ethnic minority small business owners continue to rely heavily on internal sources and the informal network of family and kin contacts", "despite some businesses having access to well-developed informal networks that can provide long term finance, there is still a shortage of suitable long term finance", "security plays an important role in securing bank finance, which creates difficulties for ethnic small business owners, since they often have limited equity and capital".

Deakin, Hussain and Ram (1994) conducted the second stage of their study in order to establish the potential of successful business development among the ethnic minority entrepreneurs. Expanding on the conclusions in the first stage of their study

(mentioned above) they concluded that while the ethnic entrepreneurs perceived bias and prejudice by the banks, bank managers by contrast were over anxious to be seen to be treating propositions equally and fairly. Bank requirements for security place ethnic entrepreneurs at a disadvantage due to limited property values in inner-city areas.

The first stage of the Deakin et al (1994) study showed how financing requirements changed as businesses developed and their relationship with external providers of finance. The study did not report on the financial structures of the businesses, the percentage of finance raised from each source, or the total finance raised from different networks; nor does it report on the total capital required to start-up the business. They did not identify the 34 ethnic respondents by categorising them into their ethnic origin. The study does not undertake comparison between any ethnic and indigenous group of businesses. Out of 34 respondents only 7 were limited companies, the rest being sole traders and partnerships and the majority of their sample was in the manufacturing and construction industries. No attempt is made to relate their findings to a theoretical framework to show a scholarly endeavour. In contrast our study aims to fill these gaps by studying capital structures of Pakistani-immigrant- and indigenous-owned small businesses throughout their life-cycle.

Blackburn (1993), Curran & Blackburn (1993), and Blackburn (1994) conducted face-to-face interviews with 76 business owners. The ethnic minorities studied were Afro-Caribbeans, Bangladeshis and Greek-Cypriots. The study focused on the background of the business ownership, the types of businesses they run, the market conditions of

different ethnic groups, the experiences of the business owners in seeking finance, and their employment strategies. The study reported that institutional funding was high in comparison with White business owners, though Bangladeshis were less satisfied than Greek-Cypriots with institutional funding.

The above three studies have certain flaws in them. Firstly, they compare an ethnic minority (Bangladeshis, Greek-Cypriots, and Afro-Caribbeans) as one group as against White businesses. Their sample, like most other studies on ethnic minorities, is based on CTN and manufacturing sector. No details are given of how the sample was drawn. No attempt is made to study the capital structures of these businesses, the amount required to start-up, and subsequent sources of finance.

In contrast our study attempts to focus on the capital structures of Pakistani owned small businesses and compares these with indigenous businesses. An attempt is made in our study to relate the theory of finance, ethnic enclave theory, theory of business networks, and business life-cycle theories. Our study exclusively focuses on the service industry and therefore attempts to add a new dimension to research on immigrant small businesses.

It is clear from the above literature that the studies conducted so far have not focused on Pakistani-owned small businesses, but have dealt broadly with Asians (Indians from India and Africa, in particular, and Bangladeshis and Pakistanis). Furthermore, the literature has tended to concentrate on retailing (Confectionery, Tobacco, and Newsagents - CTN's) or manufacturing sectors i.e., the garment trade (see table 2.6).



Little is known about the formation, economic activities, business practices, and various functions of the business - finance, marketing, production, personnel, technology - carried out by Pakistani-immigrant business-owners and whether their businesses are any different from the indigenous (White Britons) owned small businesses. To study all these areas is beyond the scope of this study. All these areas are of importance to small-business researchers. The most cited debate in the literature from the USA and the UK shows that finance is one of the most problematic areas for small-business owners. Therefore this study aims to explore and to establish an understanding of the capital structures of Pakistani-immigrant-owned businesses in a service industry (travel agents) and to compare these with the indigenous-owned businesses in the same industry.

Research in small business management to date involves the application of theory and methods from established disciplines - in particular psychology, management and marketing - to issues faced by the small-business owners/managers. Despite the general recognition of the importance of finance in the development of small businesses, there have been only limited attempts to apply finance theory and methodology to the issues that have arisen in the subject concerned (Brophy and Shulman 1992). An attempt is made to relate the debate on the theoretical framework of capital structure to the theory of finance relating to small businesses:

Table 2.5 summarises the concentrated areas of study in literature on Asian businesses in the UK. This identifies the gap in the literature, and isolates the research stance for this study. Table 2.6 presents the highlights of the literature reviewed on Asian businesses in the UK. Both tables show the contributions to be made by this study.

Table: 2.5: Concentration Areas of Study on Asian Small Businesses in the UK.

AUTHOR/ RESEARCHER	Profita- bility	Social/ Class Segregation	Family in Business / Cheap Labour	Market/Loc ation/Oppo rtunities	Self- em- plo- yment	Entrepre- urs / Back ground	Access to Finance / Use of Banks	Manage- ment Practices	Business Development Entry / Growth	Community Intermediar ies	Role of Pro- fessional Advisor	Entreprenu- erial Chain	Training (T) Empleym ent (E)	Size	Capital Structure	Network Typologies	Ethnic Enclaves
Cater & Jones (1978)	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓	✗	✗	✗
McEvoy et al (1978)	✗	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Mullins (1979)	✗	✗	✗	✓	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Aldrich (1980)	✗	✗	✓	✓	✓	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓
Aldrich et al (1981)	✗	✓	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Ahmed (1981)	✓	✗	✓	✗	✗	✓	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗
Brooks (1982)	✗	✗	✗	✓	✗	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Wilson (1983)	✓	✗	✗	✓	✗	✗	✗	✗	✓	✓	✗	✗	✗	✗	✗	✗	✗
Nowikowski (1984)	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Werbner (1984)	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓	✗	✗	✗	✗	✗
Rafiq et al (1985)	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓(T)	✗	✗	✗	✗
Khan (1987)	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓	✗	✗	✗
Wilson (1987)	✓	✗	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Wilson & Stanworth (1987)	✗	✗	✓	✗	✗	✗	✓	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗
Calderdale (1988)	✗	✓	✗	✗	✗	✗	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗
Ram (1992)	✗	✗	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✓(T)	✗	✗	✗	✗
Ram & Holiday (1992)	✗	✗	✓	✓	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Jones & McEvoy (1992)	✗	✗	✓	✗	✓	✓	✓	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗
Blackburn (1993)	✗	✗	✗	✓	✓	✓	✓	✗	✗	✗	✗	✗	✓(E)	✗	✗	✗	✗
Curran & Blackburn (1993)	✗	✗	✗	✓	✓	✓	✓	✗	✗	✗	✗	✗	✓(E)	✗	✗	✗	✗
Blackburn (1994)	✗	✗	✗	✓	✓	✓	✓	✗	✗	✗	✗	✗	✓(E)	✗	✗	✗	✗
Deakins, Hussain & Ram (1992)	✗	✗	✗	✗	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Deakins, Hussain & Ram (1994)	✗	✗	✗	✗	✗	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Jones et al (1994)	✗	✗	✓	✗	✗	✓	✓	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗
Yousuf (1996)	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓	✓	✓

Key: ✓ Studied

✗ Not Studied

Table 2.6: Studies on Asian Small Businesses in the UK.

Date	Author	Location	Number of Business / Ethnic Origin			Type of Businesses		
			AN	AC	WH	RT	SV	MIG
1978	Carter & Jones	Bradford	ND	ND	ND	S	NS	NS
1978	McEvoy et al	Bradford	300	ND	300	ND	ND	ND
1979	Mullins	Croydon	100	ND	ND	S	NS	NS
1980	Aldrich	Wandsworth	74	ND	47	S	NS	NS
1981	Aldrich et al	Bradford Ealing, Leicester	100	ND	100	S	S	NS
1981	Ahmed	ND	71	ND	ND	NS	S	NS
1982	Brooks	Lambeth	70	33	100	S	S	NS
1983	Wilson	Brent	60	60	ND	S	S	NS
1984	Nowikowski	ND	ND	ND	ND	ND	ND	ND
1984	Werbner	Manchester	ND	ND	ND	ND	ND	ND
1985	Rafiq	Bradford	1100	ND	ND	S	S	ND
1987	Khan	ND	ND	ND	ND	NS	NS	S
1987	Wilson	London Birmingham, Leicester	19	6	ND	S	S	S
1987	Wilson & Stanworth	London	104	80	NS	S	S	S
1988	Calderdale Council	Calderdale	208	ND	ND	S	ND	S
1992	Ram	Wolverhampton	50	NS	NS	NS	NS	S
1992	Ram & Holiday	Wolverhampton	6	NS	NS	S	NS	S
1992	Jones & McEvoy	15 Locations	171	54	178	S	S	S
1993	Blackburn	London, Sheffield, and Leeds	26 (B)	24	26 (GC)	S	NS	S
1993	Curran & Blackburn	London, Sheffield, and Leeds	26 (B)	24	26 (GC)	S	NS	S
1994	Blackburn	London, Sheffield, and Leeds	26 (B)	24	26 (GC)	S	NS	S
1992, 1994	Deakins, Hussain, Ram	Birmingham	34	NS	NS	NS	NS	S
1994	Jones, McEvoy, & Giles	15 Locations	171	54	178	S	S	S
1996	Yousuf	London	30	NS	30	NS	S	NS

Key: AN = Asians AC = Afro-Caribbean WH = White (GC) = Greek-Cypriot (B) = Bangladeshi RT = Retail SV = Service ND = No Details Available S = Studied  
NS = Not Studied MIG = Manufacturing

## **2.4 Small Business and The Theory of Finance**

One of the longest established areas of interest in finance is capital structure theory, essentially the study of the "bargain for funds". This body of knowledge involves the junction of corporate governance and rights to the flow of future values produced by the firm. This aspect of finance has been extended over time to include the recognition that firms consist of interrelated contracts entered into by shareholders, lenders, employees, managers, suppliers, distributors, and customers ... all referred to as "stakeholders". These contracts involve the provision of resources by the stakeholder in exchange for claims on the future values produced by the corporate entity. While these parties are joined by a common interest in the firm's success there are potentially costly conflicts of interest among them, many due to the "contract terms" enjoyed by each of the parties.

Modigliani and Miller's (1958) seminal paper provided the origins of capital structure theory. They demonstrated that in an abstract world with no taxes or contracting costs, the firm's choice of financing does not affect the firm's cash flow and therefore does not affect corporate market value. Their later paper (1968) included taxes in their model and demonstrated the benefits of debt on corporate cash flow and market value. Kraus and Litzenberegger (1973) added to this optimal capital structure theory by describing a model in which tax benefits related to debt are mitigated by increased bankruptcy costs. Warner (1977) examined the magnitude of direct bankruptcy costs for a sample of railroad firms and found that the expected present value of the out-of-pocket expenses associated with bankruptcy is small relative to the market value of the firm. This body of theory provides a framework for estimating the cost of capital



for the firm, but also provides a basis for examining public policy issues such as the link between tax policy and the use of debt as a financing vehicle.

Jensen and Meckling (1976) describe conflicts of interests among stockholders, managers and bondholders, and how these conflicts may affect corporate investment and financing decisions as agency costs. They argue that the optimal capital structure considers the relative ownership among managers and outsiders as well as the debt/equity security contracts held by each of the corporate stakeholders. This aspect of finance theory focuses attention on the structuring of financing arrangements and the effect such structuring has on corporate governance and the valuation of the firm.

Another important issue in finance theory is the value of information and the effect of its timely and even distribution among interested parties. Myers and Majluf (1984) discuss information disparities among management and potential investors, and suggest management is more inclined to issue securities when the market's perception of the security value exceeds the value assessed by management. DeAngelo and Masulis (1980) show that informed or sophisticated investors value positively leverage-increasing transactions and value negatively leverage-decreasing transactions. Rock (1986), and others who have studied the market for initial public offerings in the USA, have tested the notion of information asymmetry between issuer and investors.

According to Brophy and Shulman (1992) academic research in finance over the past two decades has produced several important theoretical models and methodologies and has tested the effects on publicly traded companies using a few well-established and reliable computer databases. Most finance researchers have followed this path.

In contrast small-business finance has been characterised by a lack of objectively measured, reliable, publicly available data and information. Almost by definition, entrepreneurial firms are small, private, closely held organisations which do not report information to the public. Studies of such firms have required the gathering of data and information by survey and interview, expensive and time-consuming processes which depend on voluntary co-operation by the subject firms. As a result of this pattern, financial research on entrepreneurial firms has traditionally used small samples and related methodologies, producing for the most part clinical studies of entrepreneurial finance.

Landstorm (1992) points out that research in small-firm financing can be characterised by a lack of theoretical framework. There are a lot of empirically based studies, but very few studies that try to put the results in a broader theoretical framework. Therefore it is important to find theories which are valid in the small-firm situation. The capital structure framework - under - the Pecking Order hypothesis (POH) - (Myers and Majluf 1984) can be applied to small business finance research.

The above framework has been adopted in that, under POH, the funds are sought in an order which minimises external interference and ownership dilution by leaving equity till last after retentions and debt have been exhausted. Financing decisions, in addition to being affected by cost considerations, are affected by control and disclosure factors. Many of the asymmetric information problems, such as adverse selection and moral hazard, which result in signalling effects and agency costs, are suggested to induce additional costs when using external sources of finance. This

implies that small firms are inclined to use a sequential rank order in the sources of finance. "Safety first" (not losing ownership control of the firm) is a principle that has been used to rank the preferred sources of financing that the firm draws upon in priority order. Firms choose to finance investments first from internally generated funds since this represents the safest source of financing. External sources of financing, therefore, are ranked second. In the case where external sources are required the safest sources are also drawn upon first. This framework offers the best explanation of small firm finance behaviour and thus has been adopted in this research.

## **2.5 Capital Structures of Immigrant-Owned Businesses**

Immigrants, like indigenous entrepreneurs, usually start businesses with small capital sums acquired through personal savings and loans, often from friends and relatives. They also rely on the experience and know-how of fellow immigrants. This leads to a concentration in certain economic niches, a concentration which stems also from the entrepreneurial nature of immigrant business activities: they discover new needs, and unfulfilled or incipient demands. Immigrants have a pool of cheap labour on which they can draw. A hypothesis put forward by Cohen (1969) suggests that competitive success in business may be acquired where relations on trust exist. Trust facilitates the extension of credit, the reliance on the 'gentlemen's agreement' and the speedy flow of needed information (Cohen 1974a). Trust is generated through ritual and kinship ties, through the evocation of moral bonds specific to members of the group and excluding outsiders. Aldrich et al (1984) claim that one competitive advantage frequently enjoyed by minority firms is their use of informal channels to obtain free

credit from co-ethnics, a practice attaining a high degree of sophistication in the rotating credit associations of the overseas Chinese (Light 1972). Another advantage is their use of members of the extended family as unpaid labour. Yet another trading asset is the customer support which they enjoy from fellow ethnics.

According to Ward (1990) those communities which have shown themselves able to use community ties and institutions to secure business finance, and are therefore somewhat less dependent on banks, seem also to be the ones with the best record for business loans and the most positive image among banks and other sources of finance. Light (1972) analysed these mechanisms among the Chinese and Japanese in the United States, and similar explanations can be given for the commercial success of other Asian minorities, notably Koreans, Indians and Pakistanis. By contrast, in minorities where the nuclear family reigns supreme, there is much less opportunity to obtain business finance on such preferential terms. Werbner (1984) explains that Pakistanis conceive of their immediate family as members of a single household constituting a joint enterprise having corporate aims and strategies. Each member of the household or joint family is expected to make a contribution, in accordance with his or her ability, to what are perceived to be shared objectives. Teenage boys and girls, wives, mothers, unmarried cousins or siblings living in the household, or still attached to it, contribute their earnings to a common pool. Although each may earn very little, the sum total of accumulated earnings can be quite substantial. Children may be encouraged to save part or all of their income for specific goals (a dowry, going to college, buying a house, setting up a business), but they must first hand their earnings over to the head of the family who, together with his wife, often decides on the priority for the family. Once a business is started, members of the family are



expected to provide labour and other forms of assistance to ensure its success. Immigrant entrepreneurs benefit from a supportive business environment, enjoying certain advantages denied to non-ethnic competitors. Internal solidarity is a common feature of any immigrant group strongly differentiated by culture from the host society and subject to exclusion from that society. Light (1972) noted that, among both Chinese and Japanese immigrants in United States, there was a marked tendency for a small business to depend at first on an exclusively ethnic clientele and only later to branch out to a wider trade. In the three UK urban areas (Bradford, Leicester and Ealing) studied by Aldrich et al (1986), Asian shop owners served on average 72 per cent of Asian customers, compared with only 14 per cent for White shop owners. It needs to be emphasised that the protected market is vital only in the initial stages of business development. Ram (1992) observed that Asian small businesses place much greater reliance on family support than their counterparts, but in times of expansion this could become restrictive and limit the growth of the business.

Trading between Pakistanis relies on fundamental cultural ideas regarding credit, trust and reputation. Business is usually conducted primarily on the basis of personal agreements, often unwitnessed. A great deal of trading is based on long term trust and personal reputation. Both success and, perhaps, the relative speed with which businesses fail are the outcome of this heavy reliance on gentleman's agreements. Access to exclusive or advantageous information can also often spell the difference between success and failure in a particular venture. Traders and manufacturers often rely on information gathered through informal channels, mainly by word of mouth. In place of formal contracts, trust between Pakistani traders is underpinned by sociability outside the business context. Such ritual ties are controlled through close-knit

networks of acquaintances. Trust, in other words, is based on the evolution of moral bonds specific to members of the group and excluding outsiders. For example, large acquaintance networks function in the operation of rotating credit associations known as *kommittis*. These tie family earnings, which might otherwise be spent on consumer items, and produce, in effect, credit-free loans. Membership of such rotating associations greatly facilitates saving and borrowing (researcher's own experience).

The Pakistani *kommitti* operates, like the Korean kye, as an informal club whose members agree to rotate their periodic contribution around the group until all have received the whole sum of money. Depending on the number of participants contributing to *kommitti*, and how closely knit they are, the rota is decided by the convenor of the *kommitti*. The convenor may face difficulty in deciding the rota if more than one participant wants it to be his/her turn. Under these circumstances the convenor may decide to auction as a means of deciding on the rota. This represents, in effect, a form of interest. Those prepared to pay more for the cash get their shares first. Those content to wait get their shares last, but gain a larger share - in effect a form of investment. Once a *kommitti* ends, the convenor is likely to start another one. Traders tend to join certain known *kommittis* more often than others, and often women save in them for their husbands. The operation of *kommittis* rests on relations of trust and tractability as Light argues (1972); they do not produce long-term, enduring relations of trust of the type engendered, for example through membership in burial societies. Relations between *kommitti* members are essentially contractual, as the ability to replace defaulters with others indicates. Similar loan conditions were observed among Turks in Amsterdam, reported by Ward (1990).

The issue of family labour is also important, not only for ethnic businesses, but for small businesses in general. Research on Asian and White small businesses in four cities in the UK found that the proportion of spouses working in the shops was nearly identical for the two groups, and the proportion with children working in the shops was also similar (Aldrich et al 1983). Family labour is largely unpaid, and relatives and co-ethnics, while not always paid excessively low wages, are prepared to work longer hours and at times that outsiders find unacceptable. Although the concept of wages is not foreign to family firms (particularly in relation to Pakistani daughters, for by custom Pakistani parents do not take moneys from their daughters), labour input is fundamentally based on production demands. During seasonal high-demand periods, families may work late every night, seven days a week. However, "family" itself can be viewed as the exploitation of whatever resources are available to move ahead. Another aspect of family labour is its loyalty. Having close male relatives within reach enables Pakistanis in Manchester, and Hindustanis and Chinese in Amsterdam, to expand their businesses. They can thus set up new branches and begin new ventures with younger brothers and sons who are willing to accept their authority and give them their loyalty (Boissevain et al 1990).

A survey in *The Economist* (August 1992) claimed that there is a widespread recognition in the main clearing banks that Asians run their businesses in their own special way. In particular at Lloyds, the strength of Asian networks has been formally recognised, since for the last ten years this bank has been managing a scheme whereby Ismaili leaders in London provide references or formal guarantees for Ismailis who wish to take out loans. Outside the formal banking system, strong ties within extended families, sects and clans can help finance a business. Loans are arranged at

the mosque, temple or gurdwara. The deeply religious at the mosque have to borrow from their fellows, since Islam forbids usury. The Head of Enterprise at the Midland Bank believes that the Asian community is far more likely to make use of family networks for finance than non-Asian businesses (White - The Economist 1992). Ward (1990) suggests that Asians bring privileged access to business resources and markets to the business through their involvement in family and ethnic networks. This allows them both to minimise the cost of transactions with other businesses, enhancing cost competitiveness, and to provide a better service through their ability to respond flexibly to volatile demand.

The theory of finance literature, outlined in 2.4 above, poses problems for small business researchers in that it only provides a framework that can be applied in medium-to-large businesses. Since the financial institutions are wary of small business financing due to small margins, high investment risks and transaction costs and asymmetric information problems, these businesses develop their own financing methods, ranging from personal sources to informal community financing methods (see 2.5 above). As a result, capital structures of these businesses cannot be studied in isolation from a balance-sheet point of view. In order to establish an understanding of their financing behaviour one needs to follow a framework within which these businesses satisfy their capital requirements. Therefore the theoretical framework followed in this study entails Pecking Order Hypothesis (POH), support by the family as labour, the dependence of these businesses on the co-ethnics as their customers (ethnic enclaves), and the role played by various networks in the mobilisation of capital requirements.



## 2.6 Summary

The objective of this chapter was to establish a theoretical perspective within which to study the capital structures of Pakistani-immigrant-owned small businesses and to draw comparisons with the indigenous-owned small businesses. The first task was to establish an understanding of the small business definitional framework appropriate for this study. Due to the small business definitional conundrum no readily available definition could be applied to this study. Therefore the operational definition of small business for the purposes of this study was stated to be “independently owned, managed by its owners or part-owners making all business decisions and employing 20 or less people”.

The second part of the chapter focused on setting out a theoretical framework for immigrant business research. Five major theories - Cultural Values theory, Middleman Minority, Opportunity Structure, Ethnic Enclave, and Interactive theory - were identified stemming mainly from the literature originating from the USA with some input from the UK. Comparisons were drawn among these theories, similarities and differences were established, and a clear theoretical perspective of the Ethnic Enclave theory was identified for the purposes of this study.

The third part of this chapter critically reviewed the existing literature on immigrant businesses in the UK. A three-fold research gap was identified. Firstly, the existing literature on Asian businesses covers three different immigrant groups (Indians, Bangladeshis, and Pakistanis) and assumes them to be the same. This clearly is not the case since they contrast in more than one aspect, such as religion, language, caste

and circumstances of migration. Secondly, the existing literature concentrated on the CTN (Confectionery, Tobacco, and Newspaper) trade or manufacturing, i.e. the garment trade, and has not studied service industries such as travel agents. Finally, there is a lack of comparative studies between immigrant - and indigenous-owned small businesses, in the small business research literature.

The fourth part of this chapter highlighted the lack of application of finance theory to small business research. Having reviewed different theories of finance, capital structure framework under - the Pecking Order Hypothesis (POH) - is identified as being applicable to research in small business finance, and therefore suitable for the purposes of this study.

Finally, the chapter summarises the existing body of knowledge on various sources of immigrant-business finance - formal and informal - in particular among the Pakistani community in the UK.

The objective of the next chapter is to evaluate the role of migrant networks in mobilising business resources, particularly business finance, at various stages of the business life-cycle. This is to be achieved by firstly outlining a brief history of Pakistani migration into the UK which will help in understanding the formation of various relationships among the members of the Pakistani-immigrant community. Secondly, the role of family in business finance will be highlighted, not only from the Pakistani-immigrant business-owners' point of view but also from the indigenous business-owner's perspective in order to draw comparisons among the two groups. Various types of network for mobilising resources to support the business are

identified. Finally, a review of the existing literature on business life-cycles is undertaken with a view to suggest the most suitable for this study.

## **Chapter 3**

### **Migrant Networks in Pakistani-Owned Small Businesses**

#### **3.0 Introduction**

This chapter reviews the relevant literature on the migration of the Pakistani community to Britain. The role of the family in mobilising human and financial capital to support the business activities of Pakistani-immigrant-owned and indigenous-owned businesses is critically evaluated. The literature on networks is reviewed in order to identify the various network typologies supporting the business start-up process and how they relate to life-cycle stages of the business. Business life-cycle models are reviewed to establish a framework relevant to small-business development. The main objective of this chapter is to identify and analyse the relevant literature, addressing the role played by the family in providing formal and informal finance by using various networks at different life-cycle stages of the business.

#### **3.1 Pakistani Migration into the UK**

Most societies in the world today are plural societies, in the sense that they consist of different ethnic and racial groups. One phenomenon which has contributed to the formation of such 'plural' societies has been the economic development arising from the growth of capitalism and the Industrial Revolution which led to great international migrations of labour in the seventeenth, eighteenth and nineteenth centuries. This is a continuing process. A significant coloured population of West Indians, Indians, Bangladeshis and Pakistanis came to Britain in the 1950s and 1960s. Several special



laws have been passed to deal with the new situation created by this presence. Some migrants were relatively permanent settlers and had all the rights of citizenship, such as the new Commonwealth immigrants of Britain up until 1971. Some moved within the European Economic Community, and those from member states were entitled to full social benefits in any state of the community. Some, such as Algerians in France, Surinamese in Holland and East African Asians in Britain, came from former colonies under special arrangements.

The reasons for the migrations have been primarily economic. Britain's coloured immigrants are mainly from the West Indies, India, Bangladesh and Pakistan. But though they constitute a small proportion of the population, their presence has evoked political issues which far outweigh their representation in the country. According to the 1991 census the population of Great Britain was found to be nearly 54.9 million<sup>1</sup>, of which the total ethnic minority population was just over 3 million. Of this total, only 100,000 live in Wales and Scotland. Nearly half of the total was made up by people of South Asian ethnic origin, with Indians comprising the largest individual ethnic minority group identified by the census. The second largest minority group was the "Black-Caribbean"- people of West Indian origin - which was just larger than the total number of people of Pakistani ethnic origin. Clearly, Britain is still overwhelmingly White in character, with ethnic minorities accounting for 5.5 percent of the population. South Asians (Indian, Pakistani, and Bangladeshi) represent 2.7 percent of the British population, with Pakistanis accounting for about one percent.

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<sup>1</sup>This was the first modern census to encounter significant non-co-operation, resulting in an undercount of 965 thousand. The undercount was a result of misclassification of dwellings, underestimates of the number of residents at an address and the failure of respondents to return a Census form. It has been speculated that these factors resulted from attempts to avoid registration for the Poll Tax, indicated by an undercount of men aged 20-29. The influence of these factors upon the estimates of the ethnic minority population has not yet been quantified by the Census office.

The migration of Pakistanis to Britain can be explained in terms of colonial links, political freedom of movement and an economic 'push' and 'pull' which slowly developed into 'chain migration'. The immigrants left Pakistan in order to return home with money to buy land and build better houses and to raise their social status. They did not intend to enter into British society and become acculturated. During the First and Second world wars many people from the areas now constituting Pakistan joined the Allied armies and navies. Mirpur, Jhelum and some parts of the Punjab are particularly well known for the high percentage of their men in the British army. This is still true of present-day numbers in the Pakistani army. The British maintained that only certain 'races' in India had military capacity. The Sikhs and Muslims were included among these, with the result that in both peace and war over half of the Indian army came from the Punjab. No other province approached it in terms of recruits. Army service gave the men wider experience and often offered them opportunities to go overseas. Another reason for migration from Mirpur has long been the need to look for work. As well as joining the army, many Mirpuris joined the British steamship companies, which recruited many of their Lascar seamen from the district. The 'push' factors were mainly the poor quality of land in these areas and a tradition of this type of service. Unemployment was quite high due to a predominantly agricultural economy and limited industrialisation. Thus it is reasonable to suggest that a traditionally close link existed between these areas and Britain which had its influence on migration in the 1950s and 1960s.

The mass migration of Pakistanis started in the late 1950s and early 1960s when migrants followed the routes established by the pioneer Pakistanis. Sponsorship and patronage by the pioneers help to overcome the intervening obstacles. In 1951 the

Pakistani population in Britain totalled 5,000 (Nielsen 1984). Between 1960 and 1966 the number of immigrants arriving from Pakistan reached almost 100,000 (Milner 1970), between 1976 and 1981 it was 77,000 (CRE, 1982). This led to a chain of migrants on a kinship-friendship basis, which in the case of the Pakistani migrants continued even after the Commonwealth Immigrants Act 1962. According to the 1991 census the total Pakistani population is estimated at nearly half a million. Two other reasons for migration of Pakistanis to Britain were the partition of India in 1947 when Pakistan was created, and the construction of the Mangla Dam. In both cases large numbers of people were displaced. At the time of the partition in 1947, large-scale movements of population took place between India and Pakistan. Practically the whole of the Muslim, Hindu and Sikh population of East and West Punjab was exchanged and there was also a large exchange of population between East (now Bangladesh) and West Bengal. Many Muslims from all over India, especially from its northern parts, took refuge in Pakistan. The largest number of refugees settled in the Punjab. The eastern districts near the border of India were very heavily settled. Most of the Pakistanis from the Punjab in this country come from these districts.

The second group of displaced people was the Mirpuris. About 100,000 people were moved from the area in the early 1960s when the Mangla Dam was constructed. The purpose of the dam was to increase the volume of irrigation water and to generate electricity for a large area of the Punjab. At the end of 1950s, and the beginning of the 1960s, the villagers of the proposed dam area were given compensation. Some bought land in the Punjab, others received cash and settled in other areas of Pakistan. Some who had relatives in Britain used the compensation money to come to Britain to find

work. It has been suggested that the large numbers of Mirpuris in Britain are a direct result of displacement by the dam, and an arrangement at Government level to admit them into Britain. The feed-back of information and other help given by pioneer Pakistanis was an important factor in stimulating others to join the movement. Examples of the successful pioneers were an incentive in themselves. The mass migration also resulted in the establishment of agents and other institutions at both the Pakistani and British ends to facilitate the migration process and to make money out of it.

The point to be stressed here is not so much the incentive to migration but the fact that the majority of Pakistanis who have emigrated to Britain had some experience of migration before coming here. Lee (1969) rightly says that a person who has once migrated and who has broken bonds which tie him to the place in which he has spent his childhood is more likely to migrate again than is the person who has never previously migrated. This certainly applied to Pakistani Muhajirs who first migrated from India to Pakistan and then to Britain later. It is also clear that lack of work and opportunities, along with the other factors mentioned above, produced most of the 'push' towards migration to Britain. The availability of jobs in Britain 'pulled' the migrants to come and work here. Information about better wages and better opportunities was transmitted through friends or relatives. Pioneer migrants decisively influenced those who followed, by their letters, visits and remittances home, demonstrating the economic opportunities. One of the characteristics of the Pakistani mass migration was that these following migrants were given financial assistance by way of sponsorship to help to pay the fare when necessary. They were



also given hospitality on arrival in terms of accommodation, meals and help in looking for a job by the established migrants.

The Pakistani chain migration process has contributed to the building up of interconnected communities. Such a development lends itself to a study based on the social network approach.

### **3.2 Role of the Family in Small-Business Finance**

Ethnic entrepreneurs rely heavily upon family, kin, and co-ethnics for the cheap, loyal labour essential for their survival and success (Ward et al 1990). This is thought to be particularly true for Asian businesses (Wilson and Stanworth 1986; Ram and Holiday 1992).

Most immigrant businesses employ co-migrants (often relatives) for long hours and low wages, sometimes even unpaid, under a tradition of eventually assisting their employees to enter business for themselves by serving apprenticeships, and they thus tolerate working conditions which would be intolerable from a short-range perspective.

The reasons for employing labour from the owner's own community include expectations of high levels of loyalty and commitment, on the one hand, and low costs because of the frequent lack of alternative employment opportunities for ethnic labour, on the other (Waldinger et al 1985). From the immigrant employee's perspective, working for a member of his/her own community provides an income without having to enter the wider labour market. In many businesses, there will be no need to speak English and this makes entry into employment for new immigrants even easier. In

some immigrant businesses employers are expected to provide employment for their own ethnic group and this may be linked to other kinds of social obligations (Boissevain et al 1990; Ram and Holiday 1992).

Family labour is important not only for ethnic businesses but for small businesses in general. Scott et al (1989) emphasise the considerable importance of family involvement with 37% of their thirty case-study firms using family members, or individuals with family connections. Jones et al (1993), in their study of ethnic businesses, found that, in a survey of 403 Asian, Afro-Caribbean and White businesses in fifteen UK locations, 35% of respondent firms used unpaid family labour. This was higher for the Asian and Afro-Caribbean group (41% and 44% respectively) than for the White group (25%). Research conducted by Aldrich et al (1983) on Asian and White small businesses in four English cities found that the proportion of spouses working in the shops was nearly identical for the two groups, and the proportion with children working in the shops was also similar. Thus, the use of family labour is a traditional and important feature of all small firms. The apparent reason for family labour in such firms may be a cost-cutting exercise, especially at the start-up stage of the business, saving money on full or part-time employees by taking in family members who are unpaid, or only given casual cash-in-hand payments and thus avoiding any tax and insurance contributions.

Observers of successful ethnic minority business communities in the USA, notably the Chinese, Japanese, and Koreans, lay considerable weight on the pooling of capital between fellow group-members and the giving of interest-free loans on the basis of trust and common fellowship (Light 1972). Wilson and Stanworth (1987) claim that

the advantage of such non-market borrowing is that it is low-cost, in effect giving ethnic entrepreneurs a competitive edge over main stream firms, who presumably must borrow at commercial rates. Much of the literature on Asians in the UK focuses on the traditional patriarchal extended family as a quasi-economic unit and a source of pooled funding. In the case of Pakistanis, Werbner (1984) depicts them as drawing on 'cultural resources which are perhaps unavailable to longer established minorities or the host society' and talks of members of the joint family contributing 'earnings to a common pool. Although each may earn very little, the total of accumulated earnings can be quite substantial'. The family is seen by its members as a 'joint enterprise having corporate aims', in effect a firm in its own right. This supports the claim by Light and Bonacich (1988) of acculturation lag, the retention of a pre-modern institution within a modern society. Wilson and Stanworth (1987), Gretton (1988), McGoldrick and Reeve (1989) and Deakin et al (1992) also stress the importance of family and friends as a source of capital with Asians. Soni et al (1987) also identifies the 'access of Asian entrepreneurs to capital from within the family' as one of their strongest assets.

Furthermore, Wilson and Stanworth (1987) show that established Asian business-owners frequently act as loan guarantors for other family members, rather than furnishing a direct loan themselves. This view has also been more recently supported by Hughes and Storey (1994).

Another way in which the family might launch a new business is through inheritance, where the heir is presented with a fully capitalised up-and-running outfit, or by opening branches which may be capitalised by the parent firm and managed,

sometimes with a considerable degree of autonomy, by members of the family. Hughes and Storey (1994) found that the proportion of Asian respondents entering through inheritance or family acquisition is virtually identical to that of Whites, whereas Afro-Caribbeans appear disadvantaged, with as yet extremely restricted opportunities for acquiring ready-made firms from other members of the family.

The literature suggests that the family is a main source of capital, loyal management, trusted personnel and cheap or even unpaid labour. Finance provided by the family at the start-up stage is seen as crucial to establish the small business. However, there is a lack of comparative studies among groups of business owners. The un-answered questions in the literature, which this study attempts to address, are whether the role of family in business start-up is as significant in Pakistani-immigrant businesses as it is in the indigenous-owned businesses. Also, there is little knowledge of the influence of the family in mobilising human and financial capital throughout the life-cycle of the business. Therefore one of the objectives of this study is to establish whether the family involvement restricts or promotes growth and development of businesses owned by Pakistani-immigrants and by indigenous-owned businesses.

### **3.3 Network Typology in Business Support**

The rapid development and the widespread nature of the networking phenomenon has attracted considerable attention in the management literature (Aldrich and Wetter 1981; Birley 1985; Jarillo 1988; Johanson and Mattson 1985, 1987; Leveson 1986; Lorenz 1988,1989; Thorelli 1986). Networking is particularly important to small businesses since the fragility which accompanies small size can be off-set by the supportive environment provided by resilient networks. Network theory potentially



provides significant insights into business relations, but despite the breadth of the literature available on networks the usefulness of the theory is impaired by ambiguities in concepts and terminology. It is important here to understand the various types of business networks in order to establish the role played by the immigrant community in supporting their own community business activities.

A synoptic framework for such a typology emerges from commentators such as Melin (1987) who points out that 'networks can mean both social relationships among individuals and interactions among organisations'. Scott (1985) likewise points to social and inter-organisational perspectives as the twin dimensions of network analysis. Holt (1987) sees 'networks as associations of individuals or groups that facilitate access to information or resources'. These associations range from family ties to innovative computer-linked telecommunications, but most networks are social or cultural in nature.

Johannisson (1987) presents three network types. Firstly, these are 'production networks' which occur within and between trading organisations and are based on transactions and contracts. Secondly, he presents 'personal networks' which are formed by 'ad hoc' friendship ties and are based on trust. Thirdly, 'symbolic networks' are formed by social bonds based on community ties and conformity to collective values. Mitchell (1973), in a very broad sociological analysis, refers to exchange networks, defined as the companies and organisations with which the small firm has commercial transactions involving monetary exchanges; they engender financial costs (purchase of materials, servicing of debts) but also generate income. Johannisson terms these 'production networks'. The 'communication network' is the

collection of those organisations and individuals with which the small firm has non-trading links that inform its business activities - such as consultants and advisors, local and central government and its agents. Relationships in this type of network are characterised by official and semi-official information flow. This type of network provides a conceptualisation of information-gathering and decision-making mechanisms that are of vital importance to the firm. The 'social network' is formed by family, friends and acquaintances. In the small-business context, these may be taken to be the contacts of the principal and, where relevant, those of the firm's employees. Here the unit of analysis is the individual, particularly the entrepreneur. The social network has two components. The first is the personal network, considered as concrete contacts with specific individuals. The second is the wider cultural dimension in which the actors are immersed. Culturally induced values, attitudes and behaviour are of prime importance in explaining the nature of the relationships that are formed, not only within the personal network but also within the exchange and communication networks. Hence the social network denotes a concrete but narrow range of individual contacts underpinned by a broad but abstract range of cultural values and references.

The *Pakistani-immigrant* community is known to establish social and communication patterns which the group then uses for mutual aid and social activities among the families involved in the network (Anwar 1979). Generally, within the community individuals are prepared to honour obligations stemming from it, or conversely feel free to exercise the rights implied by that relationship. The patterns of support take many forms in the new situation, including the exchange of services, gifts, advice and financial assistance. A Pakistani also has obligations to relatives and non-relatives

outside the immediate family. These relationships or social networks are regulated by the institution of *biraderi*. The word *biraderi* is derived from the word *biradar*, brother. *biraderi* includes all the men who can trace their relationship to a common ancestor, no matter how remote. Major activities related to the Pakistani *biraderi* include members giving each other financial aid and goods of value, and a wide range of services at specific times and under certain conditions. Johannisson (1987) describes these relationships as 'symbolic networks', and Mitchell (1973) refers to them as 'communication networks'. Whatever terminology one uses the point needs to be stressed that networks play a crucial role in small-business support. Even more, in situations where entrepreneurs face hostility from the alien environment, networks can create an environment to support the entrepreneur.

According to Ward (1990) Asians typically bring privileged access to business resources and markets through their involvement in family and ethnic networks. This allows them both to minimise the cost of transactions with other businesses, enhancing cost competitiveness, and to provide a better service through their ability to respond flexibly to volatile demand. Birley (1985) seems to support the ideology of *biraderi* by claiming that entrepreneurs in Indiana, USA, placed much importance on what she called 'informal' networks and too little on 'formal networks'. Arocena (1984), discussing the French context, argued that the entrepreneur must move beyond the social network to what he calls 'the institutional network', understood as banks and financial companies, national and local support agencies, management consultants, and so on. Bernoux, Boutin and Exiga (1980) also made the same analysis. Aldrich, Rosen, and Woodward (1987) claim that the social network perspective rests on two fundamental premises. First, entrepreneurs succeed because



they are able to identify opportunities and obtain scarce resources from their environments. These resources include everything entrepreneurs require to start and build businesses, including money, social support, product ideas, markets and information. Second, resources are obtained through exchange relationships between entrepreneurs and their social networks. Relatives loan money, husbands or wives grant permission to use family resources, colleagues or business contacts become partners or customers and acquaintances give advice about lawyers, accountants, and bankers. Accordingly, prospective entrepreneurs who have social networks rich in resources should succeed more often than those who do not. One of the objectives of this research is to explore the nature of the influence that such networks have on the capital structures of Pakistani-immigrant small businesses and to compare these with indigenous-owned small businesses.

### **3.4 Financial Life-Cycles and Small Business**

The life-cycle literature suggests that organisations evolve in a consistent and predictable manner. Scholars have argued that as firms move through various stages of growth, differing problems must be addressed, resulting in the need for different management skills, priorities, and structural configurations (Adizes 1989; Chandler 1962; Greiner 1972; Kimberly and Miles 1980; Kazanjian 1988; Miller and Friesen 1984a; Quinn and Cameron 1983; Smith, Mitchell and Summer 1985). While the numerous theories and models that are outlined below have been proposed in an effort to explain the life-cycle process, there has been remarkably little effort to relate these to the role and the sources of business finance.



The life-cycle paradigm is well established in the literature. Davis (1951) proposed one of the earlier models. Chandler (1962) in his landmark work, *Strategy and Structure*, identified a four-stage model of organisation evolution. One of the better known models is that of Greiner (1972), who suggested that organisations grow through five evolutionary stages, separated by brief periods of revolution, or dramatic organisational change. Over the years many models of organisation growth stages have been proposed (i.e. Adizes 1979, 1989; Baird and Meshoulam 1988; Block and Macmillan 1985; Chandler 1962; Churchill and Lewis 1983; Davis 1951; Downs 1967; Filey and Aldag 1980; Flamholtz 1986; Galbraith 1982; Greiner 1972; Hanks 1990a, 1990b; Katz and Kahn 1978; Kazanjian and Drazin 1990; Kimberly 1979; Miles and Snow 1978; Miller and Friesen 1984a; Salter 1968; Smith, Mitchell and Summer 1985; Scott and Bruce 1987; Tyebjee, Bruno and McIntyre 1983).

In presenting their models, some authors talked explicitly of life-cycle *stages* (Adizes 1989; Miller and Friesen 1984a; Quinn and Cameron 1983; Smith, Mitchell and Summer 1985), while others used terms such as *growth stages* (Famholtz 1986; Galbraith 1982; Kazanjian 1988; Scott and Bruce 1987) or *development stages* (Churchill and Lewis 1983; Galbraith 1982; Quinn and Cameron 1983; Scott and Bruce 1987). It appears that there is no distinction among the terms in the literature and that these terms are used interchangeably.

From the literature cited, these models (Weston and Brigham 1979, Scott and Bruce 1987, Walker 1989, Peterson and Shulman 1987, and Vickery 1989) acknowledge the role of finance as a key issue in small-business growth, and discuss it in relation to the life-cycle stages (see table 3.2). Nevertheless, these models fail to capture the

informal / formal sources of finance used at the various stages of the life-cycle in establishing a small-business capital structure. One of the objectives of this research is to explore the sources of finance deployed at the various stages of small-business development. The aim is to identify the sources of finance used in small-business development and to develop a small-business finance life-cycle model. In developing such a model it is crucial to consider the stages that a small business goes through in its life-cycle. As suggested above there is little agreement on the stages of business development among the existing organisational development models. To depict the stages for our model a brief discussion of existing models is necessary.

According to Greiner (1972) growing organisations move through five distinguishable phases of development, each of which contains a relatively calm period of growth that ends with a management crisis. Each evolutionary period is characterised by the dominant management style used to achieve growth, while each revolutionary period is characterised by the dominant management problem that must be solved before growth can be continued. Greiner looks at the five categories of organisations operations (management focus, organisation structure, top management style, control system and management reward emphasis) and relates these to the five phases of development.

Galbraith (1982) claims that the stage of development and the business idea determine the basic task to be performed. For different tasks, different structures, decision processes, reward systems and people are needed in order to execute that task... each of these dimensions is connected to the others. Galbraith discusses the six elements of

organisation, structural form, people, reward systems, processes, Centralisation, and leadership style.

Quinn and Cameron (1983) suggest that the changes that occur in organisations follow a predictable pattern that can be characterised by developmental stages. These stages are sequential in nature, occur as a hierarchical progression that is not easily reversed, and involve a broad range of organisational activities and structures. There are a variety of ways of describing the changing characteristics of organisations. They range from cognitive orientations of the organisations' members to organisational structures and environmental relations. This model also looks at the five dimensions of an organisation: structural form, normalisation, centralisation, leadership and culture.

Miller and Friesen (1984b) claim that a review of recent literature on the corporate life-cycle disclosed five common stages: birth, growth, maturity, revival and decline. They predict that each stage would manifest integral complementarities among the variables of environment (situation), strategy, structure and decision-making methods, and that organisation growth and increasing environmental complexities would cause each stage to exhibit certain significant differences from all other stages along these four classes of variables.

According to Smith, Mitchell and Summer (1985) models of life-cycle stages presuppose that there are regularities which occur in such a way that the organisations' developmental processes lend themselves to segmentation into stages or periods of time. Their model looks at the four dimensions of organisation: structural form, reward system, centralisation, and top-management composition.



Flamholtz (1986) claim that the framework for organisational development includes six organisational development areas or tasks that are critical in determining whether an organisation will be successful at any particular stage of growth. An organisation will face significant problems if its internal development is too far out of step with its size. The greater the degree of incongruity between an organisation's size and the development of its operational systems, the greater the probability that the firm will experience the onset of growing pains. Falmholtz proposed a seven-stage model, although the latter three stages are only briefly discussed. His model emphasises organisation dimensions such as, organisation, formalisation of planning, control, budgeting, operating and management systems, leadership, and decision-making.

According to Kazanjian (1988), the managers of technology-based ventures face strategic operational problems from the time of product conceptualisation through to organisational maturity. Further, some of these problems seem to have been more dominant than others at times, and a sequential pattern of dominance seem to have existed. The particular problems faced at a given time appeared to be strongly associated with a venture's particular stage of growth. His model looks at the four dimensions: structural form, formalisation, centralisation, and top-management composition.

Adizes (1989) claims that organisations have life-cycles just as living organisms do: they go through the normal struggles and difficulties accompanying each stage of the organisational life-cycle and are faced with the transitional problems of moving to the next phase of development. Organisations learn to deal with these problems by



themselves or they develop abnormal diseases which stymie growth patterns that usually cannot be resolved without external professional intervention.

Churchill and Lewis (1983) outline a framework that delineates five stages of development. Each stage is characterised by an index of size, diversity, and complexity and described by five management factors: managerial style, organisational structure, extent of formal systems, major strategic goals, and the owner's involvement in the business. Their model outlines the five stages of small-enterprise development: existence, survival, success, take-off and resource maturity. In developing the model the authors criticised previous models on three counts. Firstly, they assume a business must grow and pass through all stages of development or die in the attempt. Second, the models fail to capture the important early stages in a company's origin and growth. Third, these models characterise company size largely in terms of annual sales or number of employees, but ignore other factors such as value-added, number of locations, complexity of product line, and rate of change in products or production technology.

Table 3.1 below, compares the life-cycle stages that the above-discussed models have presented.

**Table 3.1: Comparison of life-cycle stage models**

<u>Model</u>	<u>Start-up Stage</u>	<u>Expansion Stage</u>	<u>Maturity Stage</u>	<u>Diversification Stage</u>	<u>Decline Stage</u>
Greiner 1972	1. Creativity	2. Direction	3. Delegation	4. Co-ordination 5. Collaboration	
Galbraith 1982	1. Proof of Principle/ Prototype 2. Model Shop	3. Start-up/Volume Production	4. Natural Growth	5. Strategic Maneuvering	
Quinn & Cameron 1983	1. Entrepreneurial	2. Collectivity	3. Formalisation	4. Elaboration of Structure	
Miller & Friesen 1984b	1. Birth	2. Growth	3. Maturity	4. Revival	5. Decline
Smith, Mitchell & Summer 1985	1. Inception	2. High Growth	3. Maturity		
Flamholtz 1987	1. New Venture	2. Expansion	3. Professionalisation 4. Consolidation	5. Diversification 6. Integration	7. Decline
Kazanjian 1988	1. Conception & Development 5. Commercialisation	3. Growth	4. Stability		
Adizes 1989	1. Courtship 2. Infancy	3. Go-Go 4. Adolescence	5. Prime 6. Stable		7. Aristocracy 8. Early Bureaucracy 9. Bureaucracy 10. Death
Churchill & Lewis 1983	1. Existence 2. Survival 3.(D) Success-Disengagement	3. (G) Success-Growth 4. Take-Off	5. Resource Maturity		

Most of these models are based on organisational complexities and management style and there is little mention of business finance at their stages. Also these models are more applicable to the corporate issues of large organisations rather than giving consideration to the development of small businesses. Furthermore, they fail to capture the early stages of small-business development.

The following models relate directly to small-business development from the early stages to their maturity. These models incorporate business finance and in particular the sources of finance used at various stages of their life-cycle.

In developing the traditional view of the financial life-cycle of the firm, Weston and Brigham (1978) suggested six stages for enterprise development inception: growth (1), growth (2), growth (3), maturity and decline . This model is based on the financing patterns as well as management of small firms. The criticism of this model is that it assumes the company must grow and pass through all stages of development ending in decline and collapse, giving no consideration to the fact that a firm may die in the attempt to grow, or may stabilise at a certain stage.

Scott and Bruce (1987) claim that as a small business develops it moves through five growth stages, each with its own distinctive characteristics. Because the transition from one stage to the next requires change, it will be accompanied by some crisis or another. Crises tend to be disruptive and the problems of change can be minimised if managers are proactive rather than reactive. Their model is largely similar to Greiner's (1972) and looks at the ten key issues facing small businesses as opposed to the five phases of growth outlined by Greiner (1972). An important contribution of

Scott and Bruce (1987) is that business finance is seen as a key issue for small-business growth.

Walker (1989) claims that the management and financing of small firms change a great deal as they develop from the start-up to a mature firm, if that stage is ever reached. He assumes four potential stages of financial development: new firm, developing small firm, established small firm, and mature firm. As a firm enters a new development stage, different forms of short-term and long-term financing become available to it, and different goals and activities may become the focus of the firm. He claims that across the four stages of development a firm can participate in a broader segment of the financial markets. One criticism of this model is that, whereas small firms employ several sources of finance in obtaining the initial capital for start-up, Walker assumes that owner's capital, and retained earnings are the only two sources of start-up business finance. Though it is recognised by the author that the small firm operates primarily in financial markets that are segmented and imperfect, no attempt is made to explore the role of such imperfect markets in providing start-up finance. The model also fails to capture the sources of finance at the early stages of a company's origin and growth. As suggested by Walker, further research is undertaken here to explore the sources of financing small businesses from entrepreneurs' own resources to debt.

Peterson and Shulman (1987) present a five-stage life-cycle model of the capital structure of small growing firms. The model addresses the percentage of bank debt used from a firm's existence to its maturity stage. They present evidence, from 12 countries, that new small businesses appear to use less bank debt than established



firms. The model does not include the sources of finance used at each stage of the business though it recognises that family and friends play an important role in the provision of capital at the early stages of the business.

Vickery (1989) reports on a six-stage financing life-cycle model. The model incorporates the research and development stage, missing in many of the above mentioned models. The model includes the various types of capital, for example start-up capital, owner's capital, venture capital, development capital, and mezzanine capital, instead of including the sources of capital, i.e. family, friends, and banks. Vickery acknowledges that "our financial models are unable to cater to the special logic of the entrepreneur, his family and his friends". Our contention here is that these models fail to incorporate the role played by the informal / formal sources of finance in establishing a capital structure of the business. In particular, these models fail in capturing the support given by the community, and the entrepreneurs' networks in establishing the capital structure.

Table 3.2 addresses the contributions made by the above models with regard to the role of finance in small-business finance. The table also includes the contributions made by this study.

**Table 3.2: Comparison of life-cycle stage / Sources of Finance**

<u>Model / Stages</u>	<i>Formation</i> Personal Savings Trade Credit Bank Overdraft	<i>Rapid Growth</i> Internal Financing Trade Credit Term loans Financial Institutions	<i>Growth to Maturity</i> Going Public, Capital Markets Specialised	<i>Maturity &amp; Industry Decliner</i> Internal Financing Diversification Mergers
Weston & Brigham (1978)	-----			
Scott & Bruce (1987)	<i>Inception</i> Owner's, Friends Relatives, Suppliers, Leasing	<i>Survival</i> Owner's, Suppliers Banks	<i>Growth</i> Banks, New partners Retained earnings	<i>Expansion</i> Retained earnings New partners Secured long-term debt  <i>Maturity</i> Retained earnings Long-term debt
Walker (1989)	<i>New Firm</i> Owner's capital Retained earnings	<i>Developing Small Firm</i> Retained earnings Informal investment	<i>Established Small Firm</i> Retained earnings Informal capital Venture capital	<i>Mature Firm</i> Retained earnings Informal capital Venture capital Traditional markets
Peterson & Shulman (1987)	<i>Existence</i> This model only looks at the percentage of bank debt used throughout the life-cycle and does not report on the various sources of finance.	<i>Survival</i>	<i>Success</i>	<i>Mature</i>
Vickery (1989)	<i>Existence</i> Venture capital Seed capital Start-up capital	<i>Survival</i> Venture capital Owners equity	<i>Success</i> Venture capital Development capital	<i>Established</i> Development capital Mezzanine capital Stock market Secondary markets  <i>Maturity</i> Stock market Secondary markets
Yousuf (1996)	<i>Start-up</i> <u>Pakistani</u> Informal Formal Personal	<i>Growth</i> <u>Pakistani</u> Formal Personal Symbolic	<i>Indigenous</i> Formal Institutional	<i>Maturity</i> <u>Pakistani</u> Formal Symbolic Institutional  <u>Indigenous</u> Formal Institutional
	Sources of Finance			
	Networks			

The differences between models can be traced to two methodological problems. First, most models of the organisational life-cycle are conceptually rather than empirically based. Miller and Friesen (1984a) describe this problem as follows:

while different authors have examined different variables in discussing organisational evolution, the consensus is that the nature of corporate development is quite structured. The anecdotal reports and the models described do seem rich and suggestive. Unfortunately, they are not based upon any strong empirical evidence.....

Second, measures used to delineate the various stages of development lack specificity. For instance, a dimension used in most life-cycle models is organisation size, yet few specific parameters are provided.

In recent years, a few empirical studies of the organisation life-cycle have emerged, providing important contributions to life-cycle theory (Kazanjian 1988; Kazanjian and Drazin 1990; Miller and Friesen 1984a; Smith, Mitchell, and Summer 1985). Hanks et al (1993) report that most of these studies have defined growth stages a priori, using existing conceptualisation. The lack of specificity and empirical rigor in these typologies may account for unexpected intrastage variance found in some analyses (Shani, Domicone and Perner 1988).

The sheer number of models makes synthesis a challenging process. However, the models developed by Weston and Brigham (1978), Scott and Bruce (1987), Walker (1989), Peterson and Shulman (1987), and Vickery (1989) agreed on most stages and dimensions. The main difference between these models is that Weston and Brigham considered decline and collapse as a separate stage, while the others based their models on the probability that a business may fail completely and drop from sight at



any stage of its development. The latter four models in their presentation do not seem to include a stage representing decline of the business. Most of the models exclude decline, an omission which can be attributed to two characteristics of organisation decline. First, the impact of decline on organisation structure and systems is far less predictable than changes associate with growth. Second, the onset of the organisation decline may actually occur at any stage of the organisation life-cycle (Hanks 1990b; Miller and Friesen 1984a).

In spite of this broad variance in the number of stages, a comparison of stage content (table 3.1) reveals a fairly consistent pattern of organisation evolution. All of the models include one or more stages related to organisation birth or start-up, expansion, and maturity. The same approach is adopted in this study by deciding on a model with three stages - start-up, growth, and maturity. Furthermore, this approach is supported by Scott and Bruce (1987) who suggest that “small businesses may not follow all of the paths suggested and may in fact appear to be a hybrid of two or more stages”.

Based on the above, this research aims to develop a small-business financial life-cycle model. Such a model is considered necessary since recent research on the financial behaviour of ethnic-owned businesses has often stressed community sources and networks as highly effective alternatives and/or additional sources of finance (Jones et al, 1992; EMBI 1991a - also see chapter 2) and yet existing small-business development models neglect the role of informal business finance and the importance of networks at the various stages of small-business development.



### 3.5 Summary

The objective of this chapter was to identify the relevant literature addressing the role played by the family in providing formal and informal finance mobilised through various networks at the different life-cycle stages of the business. To achieve this the chapter was divided in to four sections.

The first section outlined the history and characteristics of Pakistani migration to the UK. This concluded that the reason for migration seems to be primarily economic. As the process of chain migration begins to build up, the newly arriving immigrants seek opportunities for work. Such work is initially provided by fellow immigrants who arrived earlier, often in similar situations where they themselves might be working. A large number of these immigrants have had some entrepreneurial experience in Pakistan and as a result they tend to set up their enterprises to seek freedom of employment, climbing up the social ladder through economic prosperity, and for financial gain. The immigrant community as a whole supports the fellow immigrant in establishing a small business. Various resources are mobilised through the help of the extended family and the community in establishing these businesses.

Section two concentrates on the role played by the family in mobilising various resources needed to set up the business. The provision of cheap or even unpaid labour, cumulative savings as initial capital, family inheritance and guarantees to the banks by fellow immigrants seem to be common among immigrant-owned businesses. This is then compared with the indigenous-owned small businesses in an attempt to establish that it is not only an immigrant-owned business phenomenon, but that family support is a prominent feature among small businesses in general, though perhaps

more so in immigrant-owned businesses. The literature is found to fall short on two counts. Firstly, research on the financial support provided by the family throughout the life-cycle stages of the business is virtually non-existent. Secondly, there seems to be only one study (Aldrich 1983) which compares the role of the family among immigrant - as well as indigenous-owned businesses, and this does not cover the informal/formal sources of finance used at the various life-cycle stages of the business.

The third part of this chapter focuses on the influence of networks in supporting business activities among the both groups, Pakistani-immigrant and indigenous-owned small businesses. Different types of network are outlined to be drawn upon at a later stage in this research. The literature reviewed here falls short in addressing the influence that networks may have on the capital structures of small businesses, and there is also lack of comparative research in this area. Thus, the aims of this study are two-fold: firstly, to establish the influence that networks may have on the small business capital structures; secondly, to compare these among the Pakistani-immigrant-owned small businesses and indigenous-owned small businesses.

Finally, a critical review of the literature on business life-cycles is conducted with a view to develop a financial life-cycle model. The body of knowledge in this area tends to use different terms interchangeably when dealing with business development; for example commonly cited terms include life-cycle stages, growth stages, and development stages. This area has received much attention over recent years, but has nevertheless failed to address the influence of the family, and of networks in the financial life-cycle stages of small business development.

The next chapter brings all the areas, outlined in this and previous chapters, together to develop the research question which will lead to a statement of hypotheses.

## **Chapter 4**

### **The Research Focus - Research Question and Hypotheses**

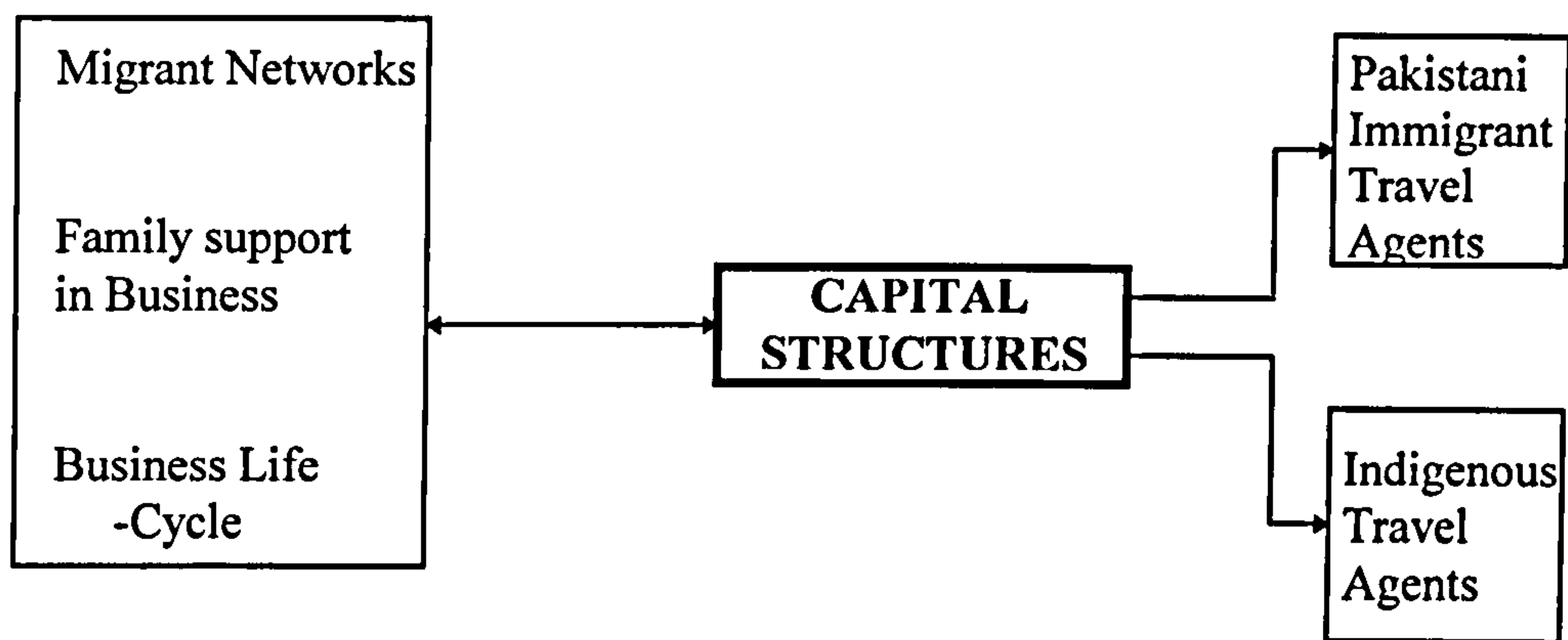
#### **4.0 Introduction**

The discussion so far has outlined the role of immigrant small businesses in an alien society, various sources of small-business finance and the role of migrant networks in mobilising capital for immigrant small businesses at the various stages of business life-cycles. The objective of this chapter is to bring all these areas together in order to develop the research question which will lead to a statement of hypotheses raised from the literature reviewed. To achieve this objectives a research design was developed and is outlined here.

#### **4.1 Research Context**

The aim of this research is to explore the capital structures of immigrant-owned businesses. The inter-disciplinary research covers four areas: migrant networks, family support in business, business life-cycle, and capital structures. The main points discussed in the earlier chapters on these four areas are integrated here to support the rationale for a study of the capital structures of Pakistani-immigrant small businesses. These capital structures are then to be compared with indigenous-owned small businesses in order to explore the differences and similarities among the businesses owned by these two groups.





**Fig: 4.1: Areas of study**

#### 4.1.1: Why Capital structures?

Since Modigliani and Miller's (1958) celebrated paper on capital structure, researchers have attempted to explain how firms choose their capital structures. In 1983, addressing the American Finance Association, Professor Myers stated, "How do firms choose their capital structures? The answer is we don't know ..... we do not know how firms choose the debt, equity, or hybrid securities they issue" (Myers 1984). According to Norton (1991) if this is true for the large firms typically studied in empirical finance literature, it is even more true for smaller firms. Though some theoretical work focuses on small-business capital structure (Day et al 1985; McConnell and Pettit 1984; Pettit and Singer 1985; and Walker 1989), there is little empirical work on small-business capital structures (Norton 1991).

According to Brophy and Shulman (1992), academic research in finance over the past two decades has produced several important theoretical models and methodologies and has tested the effects on publicly traded companies using a few well-established and reliable computer databases. In contrast, small-business finance is characterised by a lack of objectively measured, reliable, publicly available data and information.

The capital structure puzzle which has exercised finance theorists is concerned with the question of whether or not there exists an 'optimal' capital structure which contains both debt and equity. A number of possible arguments have been put forward to explain the existence of such an optimal structure, emphasising respectively the impact of tax breaks versus bankruptcy costs in the determination of upper limits to borrowing (Stiglitz 1972; Altman 1984), the relative agency costs of raising debt versus equity (Jensen and Meckling 1976), and the impact in imperfectly informed markets of using capital structure as a signalling device (Ross 1977; Myers 1984; Myers and Majluf 1984). Of these the last has led to the development of the Pecking Order Hypothesis (POH) of financial structure in which the financing of projects is undertaken by first using internal resources, then debt and, as a final resort, equity.

This study draws on this modern finance literature by discussing the issue of capital structures of small businesses in two schools of thought: the Pecking Order Hypothesis, and the optimal leverage theory. Both frameworks address the determinants of capital structure within developed financial markets like the United Kingdom.

Since researchers divide the supply of capital for small businesses into internal and external sources (Kilby et al 1984; Baydas and Graham 1995) any discussion of capital structures is incomplete without including informal sources, which includes personal savings, gifts and informal loans from friends and family, savings clubs, and rotating credit associations (ROSCA).

Rotating credit associations are commonly used by many immigrant groups to raise capital (Ardener 1964). Light (1972) argued that traditional rotating credit associations among Japanese and Chinese enabled locality-based groups to capitalise small businesses. Immigrant credit associations are based on levels of ethical accountability and frugality (Woodrum 1981) and have been found in a variety of guises among immigrants in the United States (Light 1972; Bonnett 1981; Russell 1984; Min 1988). There are only a few studies conducted in the United Kingdom discussing the importance of ROSCA's. Werbner (1984) discusses the role of *kommitis* (ROSCA) among Pakistanis in Manchester, and Srinivasan (1995) discusses this among Asians in Oxford (see 2.5 for further discussion on ROSCA's).

The objectives, as outlined in Chapter One, relating to this particular aspect of the literature are two-fold: firstly, to explore the various informal/formal sources of finance used by Pakistani-immigrant travel agents during various stages of their business life-cycle and to compare these with indigenous travel agents - this is done in the context of the theory of finance - the Pecking Order Hypothesis (see 2.4), and secondly, to establish an understanding of the role played by Rotating Savings and Credit Associations (ROSCA) as a form of informal capital.

#### 4.1.2 Why Migrant Networks?

There are numerous definitions of networks and networking borrowed from sociology and social anthropology, but researchers in general agree that networks define a specific set of relations amongst various groups and/or actors. Barnes (1972) points out that multiple interconnections and chain reactions are two fundamental properties of networks. Szarka's (1990) definition of a network is that it is: 'a specific type of



relation linking a defined set of persons, objects and events'. However, as Barnes (1972) argues, the use and definition of social networks are inherently problematic. The size of networks and type, density and frequency of links and boundaries within and amongst various networks, are not easy to identify.

Most of the studies on small-business networks show that successful small firms use flexible business networks. Bryson et al (1993) indicate that small-business service firms in the UK are able to compete successfully with large firms through the use of personal and business contacts. Loosely coupled network firms, dense webs of market relations and inter-family connections are regarded as the basic components of small-firm success in north Italy (Lazerson 1990). Similarly, a study of medical equipment innovations in the UK shows that small firms are innovative and successful within the product development and marketing networks of large, medium and small firms (Shaw 1991). Butler and Hansen (1991) emphasised that both broad social and inter-organisational strategic networks provide successful start-up and continuing competitive advantage.

However, some researchers indicate that business networks are not fully analysed and understood in the literature. Curran et al (1993) argue that much of the theorising and research using the notions of network and networking is conceptually and methodologically weak.

Researchers on small business have naturally been affected by this issue. Nevertheless, they have devoted some effort to identify linkages and borders in network analyses. For example, Shaw's (1991) study, which examines the intensity and lengths of linkages amongst network firms, provide an approach to the analysis of



interactions between various actors. However, there is still some ambiguity about identifying and analysing the networks of small firms. Current studies are largely concerned with the entrepreneur and his/her network relations, as small firms are often identified with their owners. Birley (1985) divides entrepreneurial networks into two categories: informal and formal. Formal networks include relations with banks, accountants, and so forth, whilst informal networks are constructed between family and friends. Curran et al (1993) argue that networks and networking can best be formulated within voluntary and compulsory networks. Compulsory networks are those to which an organisation must belong in order to survive and operate successfully, for example those involving banks and accountants, whilst participation in the local chamber of commerce or golf club would be classified as voluntary.

Bryson et al (1993) argue that the support networks defined by Curran (1993) are relatively insignificant, whereas the informal networks identified by Birley are most important and can be further divided into three categories. These are demand-related networks, supply-related networks and networks with support functions such as banks and accountants. Butler and Hansen (1991) outline a three-stage model of network development: social network, business-focused network, strategic network. It is suggested that, first, social networks provide ideas for the entrepreneur. Second, business-focused networks develop gradually and are influenced by the nature of the entrepreneur's social network. The final stage involves strategic networks which establish mutual dependence that not only reduce the firm's risk of failure but also provide advantages. Ouchi (1980) claims that a unique feature of network structures is that trust replaces contracts as the means to regulate exchange, thus reflecting the notion of 'clan' or *biraderi* as outlined in Chapter Three.

A more appropriate terminology is developed by Mitchell (1973), Johannisson (1987) and Szarka (1990). Mitchell and Szarka, develop the typology of exchange networks, communication networks, and social networks whereas Johannison refers to production networks, personal networks, and symbolic networks. The third objective of this research, as outlined in Chapter One, is to bridge the gap between the network typologies and their role in the formation of capital structures of small businesses.

#### **4.1.3 Why Family Business?**

Family firms represent a predominant form of business in our society (Alcorn 1982; Beckhard and Dyer 1983a, 1983b; Danco 1980; Stern 1986), yet research in this area was relatively limited prior to 1975. Christensen (1953), Donnelly (1964), and Levinson (1971) were three of the small number of writers who were actively pursuing research in family businesses during this time. Since then, the research base has broadened and moved beyond the early discussions about the overlapping boundary between family and firm (Miller and Rice 1967) and the resulting conflicts that ensue. General areas of interest have emerged to receive particular attention, including succession (Davis 1982; Dumas 1988; Handler 1989; Lansberg 1988), culture (Astrachan 1988; Dyer 1986; Schein 1983), and strategic planning (Ward 1987). In addition, studies have focused on specific members or components of the family business system. Family systems theorists have contributed an immense body of literature on family structure and therapy (Bateson 1972; Bowen 1978; Guerin 1976; Haley 1976; Minuchin 1974; Satir 1967; Watzlavik, Beavin Bavelas and Jackson 1967), while others have considered the next generation (Barch, Gantisky Carson and Doochin 1988; Birley 1986; Blotnick 1984; Handler 1989; Longenecker



and Schoen 1975, 1978; Patrick 1986), and the board of directors (Danco and Jonovic 1981; Ward 1988; Lyman 1988). However, in many ways these studies have only scratched the surface in terms of addressing the complexity of family businesses and how they are similar and different from other forms of organisation. One notable aspect of family business research is that most of the literature cited originates from the USA. Therefore, though some parallels may be drawn, the international applicability of such research is questionable. A major problem in discussing the British and American literature together is the issue of size - What is a small firm? (See 2.1 for the definitional conundrum facing small-business researchers)

Similarly, family business researchers are confronted with a definitional dilemma similar to that facing entrepreneurship researchers (Lansberg, Perrow and Rogolsky 1988). Some researchers argue that a family business is any in which more than one member of the family is affected by business decisions. Under this definition, a proprietorship is a family business if the single owner discusses the business with his or her spouse at dinner. Others require that at least two members of the family are active in the management and/or ownership of the business. Others consider a family business as one with family members from different generations active in the business. Some expect the family to be owners of at least 51% of the stock while others believe the family simply needs to be able normally to exert its influence on major decisions.

One frequently stressed aspect of the immigrant-owned business is the provision of cheap, hard-working and loyal labour (Ward et al 1986; Wilson and Stanworth 1986; Ram and Holiday 1992). This is often provided by family and community members,

particularly by new arrivals who have language and other difficulties and/or suffer discrimination in seeking work in non-ethnic enterprises. Of course, many small businesses use family labour, although the level among White-owned businesses is often less than imagined<sup>1</sup>. What is not known, however, is the extent to which such generalisation may be applied to non-White small businesses (Curran et al, 1993).

Brockhaus (1994) suggests that we need to consider comparative studies for the possible causal relationships that they may be able to introduce into the knowledge base. Therefore the fourth objective of this study is to seek answers to this research gap by exploring the role played by the family in providing cheap labour, expert advice, premises, equipment, trade references, and word of mouth advertising for the business as an 'in kind' form of start-up capital among Pakistani-immigrant businesses and to compare these with indigenous businesses.

#### **4.1.4 Why Business Life-Cycles?**

The life-cycle approach is well established in the literature (see 3.4). The intention here is to establish links between the theory of finance and the business life-cycle paradigms. With few exceptions (Weston and Brigham 1978; Scott and Bruce 1987; Walker 1989; Peterson and Shulman 1987; and Vickery 1989) the models fail to capture the critical issue of sources of finance used in the businesses as they go through the various stages of growth and development. There is very little literature on the financial life-cycles of immigrant-owned small businesses: also literature

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<sup>1</sup> For example in another survey of White businesses by Curran et al (1993) 92% of respondents reported that they had no relative as an employee working in the same firm.



drawing comparison among the financial life-cycles of immigrant and indigenous businesses is very sparse.

Much depends on the capital requirements of the business and this varies with sector. It is normally assumed that start-up costs are lower in services than manufacturing and concentration of ethnic minorities in certain sectors will reflect these differentials (Curran and Blackburn 1993). Numerous studies show that the most important source of start-up capital for all small businesses is the owners' personal resources, regardless of whether they are members of ethnic minorities or the White population (Sowell 1981; Wilson 1987; Bevan et al 1989). Although external start-up finance for a business may be kept to a minimum, expansion usually requires outside finance of some kind. Ram (1992) demonstrates that the immigrant businesses place much greater reliance on family support than their UK counterparts, but in times of expansion this could become restrictive and limit the growth of the business. However, the above studies do not report on the informal/formal sources of finance, use of these sources at different stages of the business life-cycle, or the nature of financial support offered by the family/community at the start-up stage. In addition to this these studies have looked at the Asian businesses as one rather than studying a particular group of Asians (see 2.2).

Therefore the final objective of this research is to develop a small-business financial life-cycle model which will enhance our understanding of the various stages that businesses go through and the role played by different informal/formal sources of finance at each stage of the business life-cycle. The model will also highlight any

similarities or differences that may exist between the Pakistani and indigenous businesses.

#### 4.1.5 Why Travel Agents?

Many immigrant businesses rely on their own community for their markets. They often supply goods and services not otherwise available from White-owned businesses. Typical products are related to the culture and life-style of the immigrant group such as clothing for Pakistanis and food for Afro-Caribbeans. Less specifically, the immigrant community offers markets for other goods and services which could be provided by non-minority businesses, but those run by members of the same minority may well have an advantage. Examples of the latter are the services provided by accountants, hairdressers and travel agents.

Many immigrant businesses serve White markets also and a lot depends on whether they can expand further into these markets. For example, ethnic businesses in Britain are strongly represented in catering, but are often over-concentrated in low mark-up, poorer sectors of the market where competition is severe. In retailing, ethnic businesses are frequently the small corner-shop variety, open for long hours, whose viability is based largely on the self-exploitation of those owning the business (Jones and McEvoy 1992). Even where they serve ethnic and mixed communities, there is often little potential for expansion. These markets may even be in long-term decline since successive governments since the 1960s have made immigration into Britain more and more difficult (Abercrombie and Warde 1988). The present government is continuing this trend with further legislation.

The discussion on the long-term decline of enclave markets leads researchers to divert their attention to the issue of 'break out' of immigrant businesses from their enclave markets to serve wider markets. A confectionery, tobacco and newsagent (CTN) corner shop in London's Brick Lane, for example may be largely dependent on the local ethnic market, whilst a travel agent in Central London with a wider and mixed customer base may be classified as having 'broken out' although the travel agents we interviewed operated in the ethnic enclave market and were dependent on this market. This may have an impact on their growth and development potential. In the light of the above discussion researching businesses with future growth and development potential enhances the value of research since the changes can be witnessed in the light of the conclusions drawn from research. As outlined in 2.3, literature on immigrant business has concentrated on the CTN trade and little is known about the service industry such as travel agents. This further enhances the need for a study such as this. Therefore an attempt is made here to take the immigrant business research a step further conceptually and methodologically by studying particular immigrant businesses (Pakistani travel agents) and to compare these with the indigenous businesses.

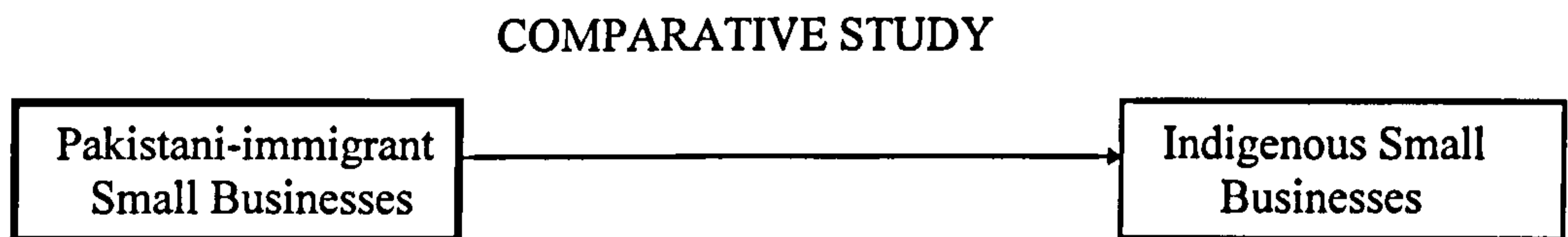
#### **4.2 Research Question**

Formulating the research question is the most important step in a research study. A good research question has both substance and form. In this research the substance is "What are the capital structures of Pakistani and indigenous small businesses"? and the form is "how are these developed"? and "why in a particular manner"? The form of the research question guides the appropriate research strategy to be adopted.



According to Yin (1994) since “how, and why” research questions are more explanatory in nature, the use of case study and survey are the preferred research strategies. This is simply because such questions deal with operational links needing to be traced over time. Therefore the study seeks to answer the following research question:

What differences exist between the capital structures of Pakistani-immigrant-owned small businesses when compared with indigenous-owned small businesses throughout their life-cycle?



The particular features of immigrant small businesses outlined in the earlier chapters and 4.1.1 above lead us to argue that within an overall Pecking Order Hypothesis framework the above research question can be split into five integrated hypotheses.

### **4.3 Research Hypotheses**

**H1:** Pakistani-immigrant-owned small businesses use larger amounts of informal sources of finance at the start-up stage (0-4 years of age) of the business life-cycle and smaller amounts of formal sources of finance than indigenous businesses, whereas at the maturity stage (5 years or more) they predominantly use formal sources of finance.

**H2:** Indigenous-owned small businesses use larger amounts of formal sources of finance at the start-up stage (0-4 years of age) of the business life-cycle and



smaller amounts of informal sources of finance than Pakistani-immigrant-owned businesses, whereas at the maturity stage (5 years or more) they predominantly use formal sources of finance.

H3: Both groups of businesses prefer internal resources than debt and, as a final resort, equity when deciding on the optimal capital structure.

H4: Family plays a more significant role in mobilising financial support at the start-up stage of the immigrant owned businesses than in indigenous-owned businesses.

H5: Pakistani-immigrant-owned businesses serve the ethnic enclave economy from where they also raise informal capital through community-based sources, whereas indigenous businesses serve the open market, making it easier for them to access the formal sources of finance.

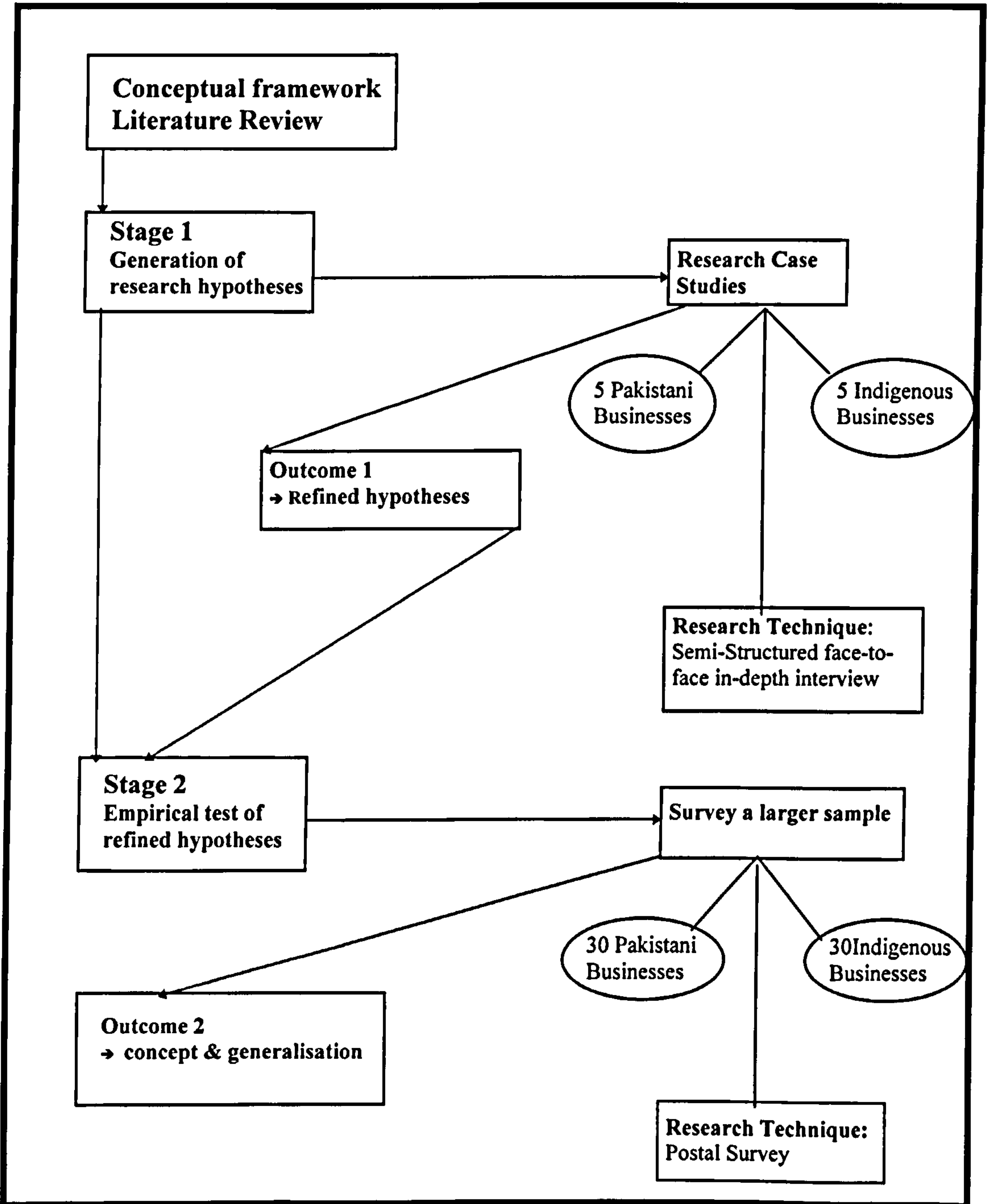
#### **4.4 Research Design**

The research design is based on the above research question and hypotheses. Due to the nature and scope of the research, focusing on the capital structures of Pakistani-immigrant businesses at various stages of the business development, the study has been broken down into two stages:

1. The development of the research hypotheses
2. The empirical test of the research hypotheses

The first stage generates the research hypotheses through a review of the literature. These hypotheses are refined by undertaking ten case studies, five Pakistani and five indigenous. The refined hypotheses are then empirically tested, through a postal survey, in stage two of the research.

The comparative study between the two groups enables the research question to be answered. The findings will enhance our understanding of small-business capital structures together with any similarities and differences which may exist between the Pakistani and indigenous small businesses.



**Fig 4.2:** A schematic representation of the research design.

#### **4.5 Summary**

This chapter has attempted to bring together different areas relating to the study. To achieve this the chapter was divided into four sections. The first section firmly establishes the research context incorporating the areas of this study - migrant networks; family support in business; and business life-cycles - in relation to the capital structures of small businesses. Each area of the study highlights its relevance to the overall research theme - capital structures of small businesses - and clearly sets out objectives to be achieved in order to test the research hypotheses. The second section addresses the research question developed from the literature reviewed. Section three outlines the research hypotheses, and integrates these with the research question of the study. Finally, section four outlines a two-stage research design.

The next chapter outlines the research methodology adopted in this study. It provides a theoretical foundation and an analytical framework for the operationalisation of the research hypotheses. Thus the objective of the next chapter is to show why the specific methods and techniques were chosen for each stage of this research.

## **Chapter 5**

### **Research Methodology**

#### **5.0: Introduction**

Having stated the research topic and developed the analytical framework of the research hypotheses, the next step is to explain how we intend to handle the issue and investigate the research question.

The objective of this chapter is to establish a philosophical and methodological stance suitable for the empirical testing of the research hypotheses. The chapter is divided into ten sections. The first section establishes basic philosophical concepts relating to social science research and addresses the methodological issues in social enquiry. The two different research approaches, qualitative and quantitative, are also outlined in this section as a basis for establishing a philosophical stance for this research. This philosophical stance is related to the study in the second section. The third section outlines the theoretical implications of the methods of data collection adopted together with the actual experiences gained during the fieldwork. The fourth section briefly addresses the issues relating to the combination of various research methods used. The research strategy is outlined in the fifth section of the study. The sixth section is devoted to the research sample. The analytical strategy adopted is outlined in section seven. The problems of data collection are reported in the eighth section. The quality of research measures is discussed in the ninth section. Finally, a summary of the chapter is presented in section ten.



## **5.1: The Philosophical Stance**

### **5.1.1 Some Basic Concepts**

Two of the most central concepts in the philosophy of science are ontology and epistemology. The root definition of ontology is 'the science or study of being'. The root definition of epistemology is 'the theory or science of the method or grounds of knowledge'. An epistemology is a theory of knowledge, it presents a view and a justification for what can be regarded as knowledge - what can be known, and what criteria such knowledge must satisfy in order to be called knowledge rather than beliefs (Blaikie 1993). This distinction will be drawn upon below.

Two related concepts must also be distinguished: methodology and method. There is a tendency in much of the literature to use these concepts interchangeably, or to use one when the other is more correct. In particular, 'methodology' is frequently used when 'method' is more appropriate.

Methods of research are the actual techniques or procedures used to gather and analyse data related to a research question or hypotheses. In the social sciences they include engaging people in conversation, getting people to fill in questionnaires, observing behaviour and examining documents or other records of human activity. Methodology, on the other hand, is the analysis of how research should or does proceed. It includes discussions of how theories are generated and tested - what kind of logic is used, what criteria they have to satisfy, what theories look like and how particular theoretical perspectives can be related to particular research problems.

### **5.1.2 Methodological Issues**

Approaches to social science research can be divided into two groups in terms of their ontological assumptions: they are either realist or constructivist. Positivism, Critical Rationalism and Realism all assume that social reality exists independently of the observer and the activities of social science, that this reality is ordered, and that these uniformities can be observed and explained. However, they differ in their view of the elements that constitute social reality, particularly the explanatory elements, and on whether this reality also exists independently of social actors. The ontological positions of Positivism and Critical Rationalism entail a deterministic view of social life in which social action and interaction are the product of the operation of 'external' forces (such as social norms) on social actors. The structuralist version of Realism (Bhaskar 1975) tends to share this 'external' view, although it would look for the forces in different places, while the social psychological version (Harre 1960) would look more to 'internal' cognitive resources.

The other major approaches, Interpretivism, Critical Theory, Structuration Theory and Feminism, are all fully or partly constructivist in their ontological assumptions, and Realism also includes some elements of it. A constructivist ontology entails the assumption that social reality is produced and reproduced by social actors, it is a preinterpreted, intersubjective world of cultural objects, meanings and social intuitions. A consequence of this position is that in any social situation there may be multiple realities.

While Critical Theory, Structuration Theory, Feminism and, to some extent Realism, are all built on this constructivist foundation of Interpretivism, they recognise that the

production and reproduction of social reality occurs either in wider social conditions of which social actors may not be fully or even partly aware or, in the case of Structuration Theory, within the limitations produced by the social structures which are products of these processes (the duality of structure).

The approaches which adopt Realist assumptions differ in their view of whether social reality can be directly observed and, if so, to what extent. Positivism accepts as reality only the discrete events that can be directly observed by the senses, Critical Rationalism accepts that knowledge of reality can be achieved, and then only tentatively, by explicitly using theoretical concepts to determine what can and needs to be observed, and structural Realism recognises domains of reality only one of which, the empirical, is or can be directly observed. Interpretivism, Structuration Theory, social psychological Realism and Feminism all accept that knowledge of the social world must be achieved by immersion in some part of it in order to learn the 'local' language, meanings and rules. What is then done with this 'inside' knowledge is a matter of considerable disagreement. The position of Critical Theory is somewhat mixed because of its willingness to use a combination of historical-hermeneutic and empirical-analytic traditions for different aspects of an investigation with emancipatory aims.

There is, then, a fundamental choice to be made by the social researcher, a choice between very different ontological (realist v. constructivist) and epistemological (outside v. inside) positions.



### **5.1.3 Two Modes of Research Approach**

Many books have been written on the methodology of both quantitative and qualitative research. However, they tend to focus mainly on the mechanical procedures of data collection and analysis. There is a tendency to argue the case for quantitative and qualitative approaches almost as ends in themselves, abstracted from deeper ontological and epistemological issues that need to be examined. The difference between the qualitative approach and the quantitative approach is not simply the difference between multivariate statistics and in-depth interview, between Likert-scale questionnaire and open-ended questionnaire, or between survey and case study. They are two different approaches to studies. Research is not just a question of methodology. The selection of method implies some view of the situation being studied. How it is being studied carries certain assumptions and answers to what is being studied.

All research methods embody a variety of epistemological assumptions regarding the nature of knowledge and the methods through which that knowledge can be obtained, as well as a set of ontological assumptions about the nature of the phenomena to be investigated. Quantitative and qualitative research methods are based upon different ontological and epistemological assumptions which shape the aims of research enquiry, the roles of the researcher, and the researcher respondent relationship.

To discuss the paradigms of quantitative and qualitative research approaches one needs to trace their intellectual origins. These go back at least to the philosophical debates of the seventeenth century concerning the nature of human knowledge and its relationship to the world. It has been suggested that assumptions about the nature of



reality can be thought of in terms of the subjective-objective dimension (Burrell and Morgan 1979).

	<b>Quantitative</b>	<b>Qualitative</b>
Ontological Assumption	Objectivity	Subjectivity
Epistemological Assumption	Positivism	Phenomenology
Aims of Inquiry	Universality	Particularity
Role of Researcher	Outsider	Insider
Researcher-Respondent Relationship	Detachment	Involvement
Research Methods	Statistics	Description

**Table 5.1: Differences in quantitative and qualitative approaches.**

### **5.1.3.I Ontological Assumptions: Objectivity Versus Subjectivity**

An objectivist view revolves around the ontological assumption that the social world external to individual cognition is a real world made up of hard, tangible and relatively immutable structures. This objective view of reality as a concrete structure encourages an epistemological stance that emphasizes the importance of studying the nature of relationships among the elements constituting that structure. Knowledge of organisation from this point of view implies a need to understand and map out the causal relationships among the elements of the structure. It encourages a concern for an objective form of knowledge that specifies the precise nature of laws, regularities, and relationships among phenomena measured in terms of social “facts” (Pugh and Hickson 1976).

In contrast, the subjective view revolves around the assumption that “the social world external to individual cognition is made up of nothing more than names, concepts and labels which are used as artificial creations whose utility is based upon their convenience as tools for describing, making sense of, and negotiating the external

world” (Burrell and Morgan 1979). Social action occurs when a social actor assigns a meaning to his or her conduct and/or environment and, through this meaning, relates it to the actions of others. Actions, then, are reciprocally oriented to each other not in any mechanistic fashion of stimulus and response but through an interpretative process. Accordingly, to grasp the meaning and significance of social phenomena it is necessary to understand this interpretative process and discover the motives, the reasons, and the goals which lead people to act in the ways they do. Thus, for the subjectivist, understanding and interpretation logically precede causal explanation.

This phenomenologically-oriented perspective challenges the idea that there can be any form of “objective” knowledge that can be specified and transmitted in a tangible form, because the knowledge thus created is often no more than an expression of the manner in which the researcher as a human being has arbitrarily imposed a personal frame of reference on the world, which is mistakenly perceived as lying in an external and separate realm (Husserl 1929).

### **5.1.3.ii Epistemological Assumptions: Positivism versus Phenomenology**

The objectivist adopts the epistemologies that follow the tradition of positivism, which seek to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements. Research methodology is influenced by the logic of experimental designs derived largely from biological science. Research methods such as surveys and questionnaires are used to investigate a wide range of topics. The use of statistical measures of association and the development of measurement models are general in this approach.

The positivist epistemology is challenged by the phenomenologist. The argument comes down to the issue as to whether human behaviour is a fundamentally different kind of phenomenon, one that cannot be studied by scientific means or by any approach that attempts to break a totality down into parts and variables which can be analysed separately. "The whole is greater than the sum of its parts." The phenomenologist argues that human behaviour must be seen in its totality and must be experienced first-hand to be understood. If the researchers attempt an analysis, which almost by definition requires some effort to decompose a phenomenon, they miss the true essence of human life. The subjectivist claims that human behaviour can only be understood in terms of meaning and not in the causal relationships of natural sciences. The causal, mechanistic and measurement-oriented models of explanation typical of the positivist approach are inappropriate for the understanding of human behaviour.

#### **5.1.3.a          Universality versus Particularity**

The positivist believes that research is a neutral, technical process through which researchers simply reveal or discover knowledge. Researchers have access to methods and techniques which enable them to answer their questions precisely, systematically and theoretically: in short, scientifically. An essential requirement of any scientific answer to a question is an adequate empirical database, which includes statistical adequacy, representativeness, random selection, and so on. Another essential requirement is theoretical knowledge, which is derived from the systematic application of a warrantably scientific method to the phenomena of the world, and which distinguishes the social scientist's account from that of the ordinary member of society. It is believed that through scientific methods, research findings can be



generalised from the particular to construct a set of theoretical statements that are universally applicable.

The subjectivist challenges the objectivist view on the fundamental issue of whether or not human beings can ever achieve any form of knowledge that is independent of their own subjective construction; whether they can ever achieve a true sense of objectivity, since they are the agents through which knowledge is perceived or experienced. The researcher's values, assumptions, interest, and purposes shape which methods or techniques need to be complemented by an appreciation of the nature of research as a distinctively human process through which researchers make knowledge. They want to focus on a particular unique here-and-now situation - the situation relevance. The dichotomy was described by Geertz (1973) as "thick and thin description". Qualitative investigators tend to describe the unfolding of social processes, the meaning of social life, rather than the social structures that are often the focus of quantitative researchers.

### **5.1.3b            Outsider versus Insider**

The positivist believes that knowledge is validated by methodological procedure and logic. The researcher is guided by the belief in an external reality constituted of facts that are structured in a law-like manner. Therefore the "inquiry from the outside" (Evered and Louis 1981) calls for detachment on the part of the researcher, who typically gathers data according to a priori analytical categories and aims to uncover knowledge that can be generalised to many situations. The researcher usually preselects a set of variables, which are based on the researcher's frame of reference and are phrased in hypotheses - the researcher's language - and only data pertaining to



them are collected. In contrast, the phenomenologist views human behaviour, what people say and do, as a product of how people define and construct their world. The task of the researcher is to capture this process of interpretation. The “inquiry from the inside” (Evered and Louis 1981) calls for the experiential involvement of the researcher, the absence of a priori analytical categories, and an intent to understand a particular situation. It attempts to understand the world from the respondent’s frame of reference and believes that the researcher can best come to know the reality by being there, by becoming immersed in the stream of events and activities and by becoming part of the phenomena of study. “Being there” is essential because knowledge is validated experimentally.

### **5.1.3c Involvement versus Detachment**

Qualitative researchers in contrast to their quantitative colleagues claim forcefully to know relatively little about a given piece of observed behaviour until they have developed a description of the context in which the behaviour takes place and have attempted to see that behaviour from the position of its originator. Such contextual understanding and empathetic objectives are unlikely to be achieved without direct, first-hand, and more or less intimate knowledge of the research setting. Therefore the qualitative researchers recognise and believe that the research process itself is a form of social interaction in which the researcher “converses” with, and learns about, the phenomenon being studied, especially when the object of inquiry is another human being (respondent). One cannot abandon one’s own humanity in the research process. Moreover, it is the presence of interactivity that makes it possible for the researcher to be a “smart” instrument, using his/her sensitivity, responsiveness and adaptability to

gain relevant information and ideas. However, in the quantitative approach, it is critical for the researcher to maintain a discreet distance between himself/herself and the object of study, especially when the object is another human being. Special methodological safeguards have to be taken to guard against reactivity, because it will influence the research outcome.

### **5.1.3d Statistics versus Description**

The large-scale empirical surveys that dominate much organisational research stand as a good example of the classical type of method operating on assumptions characteristic of the objectivist approach. They are appropriate for capturing a view of reality as a concrete structure. In analysing “data” through sophisticated quantitative instruments, such as multivariate statistical analysis, researchers are in effect attempting to freeze the social world into a structure of causality and to neutralise the role of human effect. Furthermore, for the purpose of accurate definition and measurement, “data” has to be abstracted from its context.

Morgan and Smircich (1980) argue that organisational researchers can no longer remain as external observers, measuring what they see; they have to move into the world to investigate from within the subject of study and to employ research techniques which are appropriate to that approach. To operate in a qualitative mode is to trade in linguistic symbols and, by so doing, to attempt to reduce the distance between the indicated and indicator, between theory and data, between context and action. It uses the interpretative techniques that seek to describe, decode, translate, and come to terms with the meaning, not the frequency, of certain more or less

naturally occurring phenomena in the social world. Description is then the fundamental act of data collection in a qualitative study.

Among the qualitative methodologies currently in use, the ethnographic method has a long and distinguished history. As practised by anthropologists, ethnography involves a particular set of methodological and interpretative procedures that evolved primarily in the twentieth century. There are also two major theoretical approaches - symbolic interactionism (Mead 1932) and ethnomethodology (Garfinkel 1967) - that have become dominant forces in the qualitative approach. Different techniques such as participant observation, content analysis, in-depth interviewing, biography, and linguistic analysis, all have their roles to play.

Miles and Huberman (1994) report that Fred Kerlinger once said that "there is no such thing as qualitative data. Everything is either 1 or 0". Against this view, we have Berg's (1989) equally fervent dictum that all data are basically qualitative: to a raw experience, we may attach either words or numbers. Campbell (1974) remarks all research ultimately has a qualitative grounding. Quantitative studies have been linked with positivism and damned as incommensurable with naturalistic, phenomenological studies (Smith 1983; Smith and Heshusius 1986). Qualitative researchers have complained that they are disparaged as The Other, losing out against the powerful, prestigious establishment that takes quantitative methods for granted (Reinharz 1993). Researchers are stereotyped as number-crunchers or "navel-gazers". Gherardi and Turner's (1987) thoughtful analysis of the conflict is charmingly entitled "Real Men Don't Collect Soft Data".



Miles and Huberman (1994) believe, and I agree, that we have to face the fact that numbers and words are both needed if we are to understand the world. Gherardi and Turner (1987) suggest that the issue is one of knowing when it is useful to count and when it is “difficult or inappropriate to count at all”, when data are non-standardised and we have no clear rules for saying what is variation and what is error. Weinstein and Tamur (1978) are also persuasive. They see quantification not as an end itself, but rather as “a means of making available techniques which add power and sensitivity to individual judgement when one attempts to detect and describe patterning in a set of observations. Howe’s analyses (1985, 1988) show that quantitative and qualitative methods are “inextricably intertwined”, not only at the level of specific data sets, but also at the levels of study design and analysis.

Finally, a “mixed” approach may cause “ontological oscillation” (Burrell and Morgan 1979), although a researcher can choose to operate in different paradigms at different times. The different research approaches are like holography, presenting reality in different lights and offering alternative paths to understanding reality. They serve research purposes by different means with different results. Differences between the two approaches are located in the overall assumption, form, focus, and emphasis of study. The virtues of techniques and methods cannot be determined and categorised in the abstract, because their precise nature and significance is shaped within the context of the assumptions on which the researcher acts (Morgan 1983). The issue is not quantitative-qualitative at all, but whether we are taking an “analytic” approach to understanding a few controlled variables, or a “systemic” approach to understanding the interaction of variables in a complex environment (Salomon 1991).



## **5.2 Methodology and Circumstance**

Research should follow styles, but should try to answer questions by the most appropriate means. According to Sapsford and Evans (1979) the most appropriate means may well be an ad hoc combination of methods designed to maximise generalisability and inclusiveness within the available resources and circumstances.

In this research, the most appropriate method has been selected that attempts to combine the “best” of both survey and semi-structured interviews. Consequently, the position taken is an amalgamation of two philosophies. The first, underlying survey methods, is labelled as positivism. The second, underlying in-depth interviewing research, is related to the argument noted by Bynner and Stribley (1979) that at the primitive stage we have reached in social science it is premature to look for precise measurement models for our variables, of the kind employed in natural sciences. Instead, we should concentrate on exploring the relationships between fairly crude indicators of our variables so we get a clearer idea of which ones are of most theoretical and practical importance. To explore such relationships, historical review method together with case studies was also used.

The philosophical end-product underlying my research then becomes one where, while models and precise measurement should be sought after, the nature of my subject and the under-development of the social sciences means I have to look for clarification as well. This hybrid philosophy is reflected in the practicalities of my research approach in a number of ways, and can be illustrated if we examine my actual data collection methods.

### **5.3 Methods of Data Collection**

Whilst many texts refer to instrumentation, measurement devices, methods of data collection and the like to mean the way in which the researcher goes about acquiring information within one of the frameworks just described, a more general term is 'technique'. Some of the other terms are too precise (such as 'instrumentation') or involve the use of terms applied elsewhere (such as in 'data collection method'). In essence, one is discussing 'how' as opposed to 'what' or 'why' we do research.

Due to the sensitive and confidential nature of the information needed, focusing on small-business sources of finance, it was realised that the method used in obtaining this data would be crucial to the success and validity of the research.

#### **5.3.1 In-depth Interviews**

Interviewing as a qualitative research technique was defined by Moser and Kalton (1977) as:

“A conversation between interviewer and respondent with the purpose of eliciting certain information from the respondent”.

The importance of interviewing, as a qualitative research technique, arises from the necessity to come into contact with individuals so as to get access to the facts and opinions, and to receive them directly from the persons. Kaplan (1970) asserted that:

“Where the source is accessible to the investigator, the interview is the device to tap it, and if it is not easily reachable, the controlling factor in the success of the interview is the reaction of the personalities involved”.

Theorists in methodology (Maccoby and Maccoby 1968; Moser and Kalton 1977), divided and classified interviewing into structured and unstructured interviews. In-depth interviewing has been referred to as non-directive, unstructured, non-standardised and open-ended (Taylor and Bogdan 1984).

In-depth interviewing is taken to mean face-to-face encounters between the researcher and the interviewees directed toward understanding the interviewees' perspectives on their lives, experiences, or situations as expressed in their own words. Stage 1 of this research involved face-to-face interviews which offered the possibility of modifying my line of enquiry, following up interesting responses and investigating underlying motives in a way that postal and other self-administered questionnaires could not (see appendix 1 for interview schedule). It meant a flexible and adaptable way of finding out things and had potential to provide rich and highly illuminating material.

The objective of using in-depth interviews was to establish a fundamental understanding of small-business capital structures. The first-stage hypotheses were refined by using a case-study method. The issue of generalisability, and the representativeness of the case study sample was tested by undertaking a much wider postal survey. A colour-coded questionnaire was developed to undertake the postal survey (see appendix 2).

### **5.3.2 Case Study**

This method is used when the thesis is focused on a set of issues in a single organisation. Yin (1984) gave three situations in which one can choose the case study method:



- a) “if one’s research is following a specific theory, and it is likely that an organisation has those factors or circumstances for the critical test of the theory”
- b) “in order to identify the distinguishing characteristics of an extreme or rare situation in which an organisation finds itself”
- c) “if it is believed that the circumstances in which the organisation finds itself are sufficiently interesting to yield some important, new information”

The case study allows an investigation to retain the holistic and meaningful characteristics of real-life events - such as individual life-cycles, organisational and managerial processes.

The case study method is also used in a comparative way by carrying out the same kind of study among a number of organisations. As a research method, its advantage is that it can provide comprehensive and informative data on an organisation (Jankowicz 1995) but a major disadvantage is that it is subject to the influence caused by interruptions arising from everyday events taking place in the organisation.

The case study method was adopted after the in-depth interview with the business-owner. The case studies were compiled from interviews conducted, with five small businesses in each group, between August 1994 and May 1995. These case studies provided key information on the financing patterns of the business, the role of the family members, and the finance behaviour of the business. Due to the sensitive nature of the research topic the business owners were not keen to divulge information in front of their staff or when other people were present. This meant that a trusting



relationship needed to be developed between the respondent and the researcher. This was effectively established by the researcher by offering information on how to join a training scheme by which school leavers could be recruited as trainees through the enterprise training schemes, and by offering assistance in the office over the weekend since all of these businesses worked six days a week and sometimes some business owners went to work on Sundays to clear their 'paper work'. The researcher gained their confidence once they saw the valuable information he could provide. The researcher had planned initially to record the interviews, but soon realised the sensitivity of the information being sought and hence adopted a note-taking approach during and immediately after the interview.

### **5.3.2i Critique of Case Study Approach**

The use of the case study method can lead to charges of anecdotalism. Yet for many research topics within management this method is the most appropriate. However, case studies need not be viewed as solely exploratory or tentative exercises in research.

“case studies of whatever form are a reliable and respectable procedure of social analysis .... much criticism of their reliability and validity has been based on a misconception of the basis upon which the analyst may justifiably extrapolate from an individual case study to the social process in general .... the validity of the extrapolation depends not on the typicality or representativeness of the case but upon the cogency of the theoretical reasoning” (Mitchell 1983)

Their validity, when correctly understood, depends, as indicated above, on how they are used and the logic of their analysis. Yet it would be foolish to understate some of the weaknesses of the case study method. Qualitative approaches tend to bring the researcher closer to the phenomenon under investigation and some might say too

close. This raises two distinct problems. Firstly, the problem of the dependence on the researcher's skills of clinical analysis in maintaining objectivity. Yet as with quantitative research, judgement may still be passed on the validity of research results. Indeed, the distinction between qualitative and quantitative research may be artificial in many ways. Ratcliffe (1983) states that "all approaches to inquiry are inherently qualitative in nature". Secondly, there is a the political consideration of the acceptability of case study research. Bonoma (1985) observes

"because the major thrust of most published marketing research is towards deductive, numerate, and causally directed research, the researcher may have a greater challenge in demonstrating the benefits and necessity of qualitative methods for the problem studied".

Despite strenuous efforts made to enhance the overall quality of the analysis through careful preparation and implementation, it is recognised that the resultant findings inevitably contain a mixture of judgement, inference and interpretation. The approach adopted is a compromise between the methodological norms established by science and the peculiar problems of investigation that capture the richness of the data. Scientific explanation might well be the ultimate technique for raising predictive capability, but should not be regarded in the interim as a means of dismissing evolving methodologies.

### **5.3.3 Historical Research**

Whilst in one sense all research is historical, i.e. it is impossible to analyse data at exactly the same time as it is collected and in any event interpretation is based on the past, a particular method of research is the historical approach. This method is suitable for those relating to financial and accounting subjects (Orbell 1987). The

method can also be used to study an organisation's performance (past and present) relating to a specific issue, for example capital structures. This method is particularly useful in qualitative studies for establishing a baseline or background to interviewing.

The literature review carried out prior to a research study may be considered as a particular use of the historical approach. Often, and certainly in this research, a literature review will lead to the development of hypotheses which can then be tested through other research methods. Thus, historical research methods can be used as a means of generating and refining hypotheses.

Since the sample used for the purposes of this study were businesses which had started at some time prior to this research, this meant that the use of the historical research method was crucial in gathering background information, for the purposes of refining the research hypotheses and choosing an appropriate research method to test these hypotheses.

#### **5.3.4 Survey**

The survey approach to research is very common in management because it results in a quantitative output which, if the sample is of a statistically significant size, can be used to provide information on group behaviour or sets of behaviour. Marsh (1992) defines the survey as an inquiry which involves the collection of systematic data across a sample of cases and the statistical analysis of the results. A principal advantage of this technique is that data is cost-effective to collect and large-scale surveys can be undertaken on limited budgets.



The main purpose of using the survey method is to ensure that any subsequent assessment of the attributes of a sample question are accurate, and the findings can be generalised - in other words, they have population validity. The method involves designing and administering a questionnaire. The decision about how respondents are to be contacted and the requisite information to be elicited depends on three factors:

- a) size of the sample
- b) the geographical dispersion of the sample
- c) the complexity of the information required.

The type of survey instrument is determined by the information needed. There are three methods of data collection in surveys: postal, telephone, and personal interviews. The relative advantages and disadvantages of surveys are highlighted through the following criteria:

- a) appropriateness of the method to the problem studied
- b) accuracy of measurement
- c) generalisability of the findings
- d) administrative convenience; and
- e) avoidance of ethical or political difficulties in the research process

The strengths of surveys include accuracy, generalisability, and convenience.

Notwithstanding this debate, the survey is employed in the design of this research study for the final stage of data collection as it provides a means of collecting sufficient data to explore the percentage of finance raised through each source of finance, and amount of equity/debt finance in the capital structure.

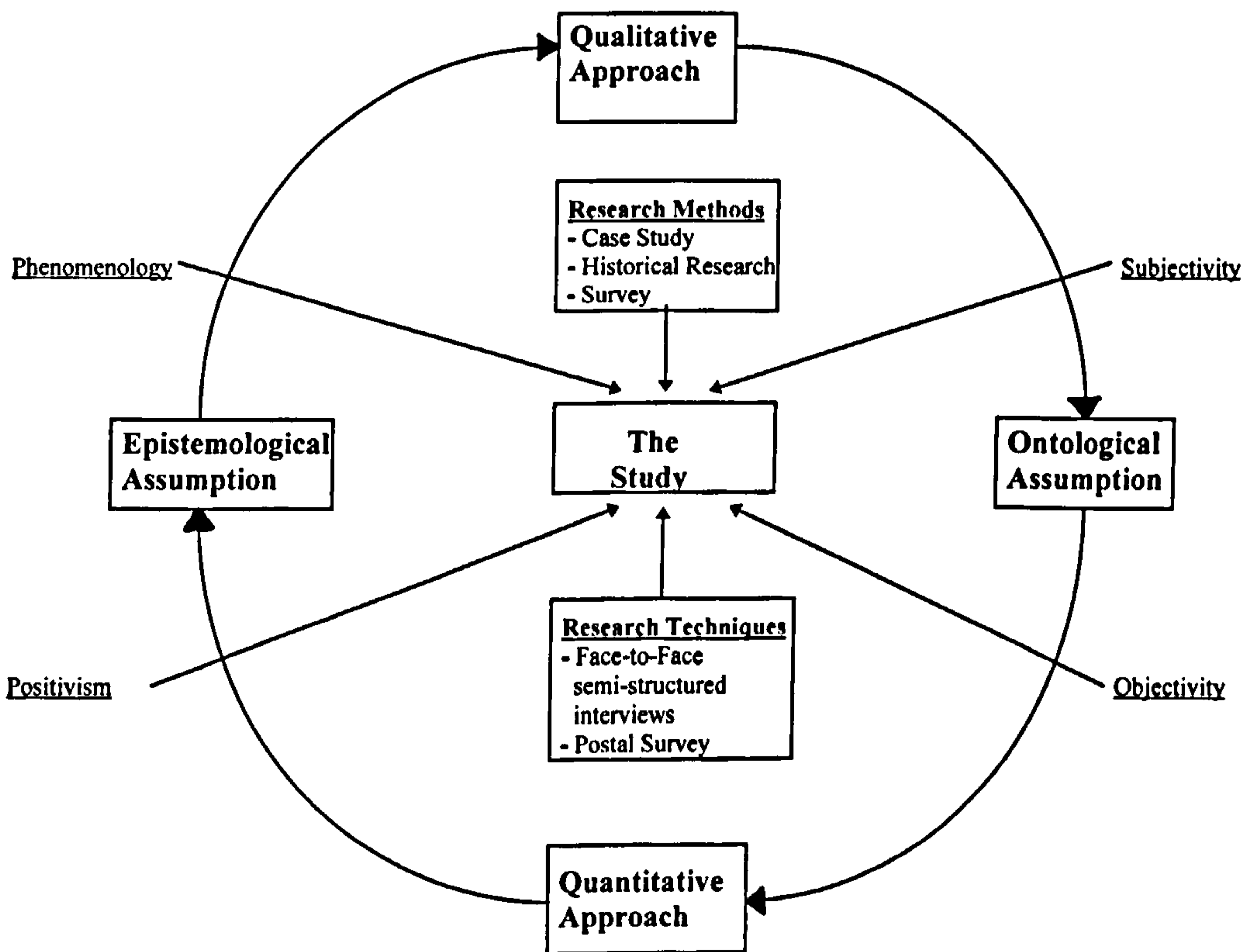
#### **5.4 Combining methods**

Whilst for many purposes a single method may be appropriate, the possibility and advantages of combining different methods should be considered. The combination



of research methods enables a wealth of rich information to be garnered and a degree of control to be maintained over the study. In this piece of research four different methods of qualitative and quantitative research have been combined together to extract the sensitive information: in-depth interviewing, case study, historical research, and postal survey.

According to Robson (1993), 'triangulation' in its various guises (for example using multiple methods, or obtaining information relevant to a topic or issue from several informants) provides a means of testing one source of information against other sources. In this research, the use of evidence from different methods such as data collected from in-depth interviews, case study, historical research, and survey method enhances the validity and credibility of the data. Figure 5.1 below describes the methodological components and process adopted in this research.



**Figure 5.1:** Methodological components and process of this research.  
**Adapted from:** Hollis 1994

## **5.5 The Research Strategy**

The general principle is that the research strategy or strategies, and methods or techniques of data collection employed, must be appropriate for the question one wants to answer (Robson 1993). In order to achieve the research objectives, this research is divided into two stages. Stage 1 generates the research hypotheses, after establishing the conceptual framework. At this stage ten case studies were made of five Pakistani-owned businesses and five indigenous-owned ones, and in-depth, face-to-face, semi-structured interviews were carried out to explore the sources of finance used in the formation of the capital structures. The empirical test of the research hypotheses was carried out at stage 2 of the research by conducting a postal survey of 60 businesses (30 Pakistani and 30 indigenous).

## **5.6 Research Sample**

In social science research the desired characteristics of the sample are:

- a) A proper sample must give a precise picture of the population from which it is drawn.
- b) The sample should be as small as precision considerations permit, as economical as possible, and gathered as swiftly as its various measurements permit.

The majority of previous studies on small firms used the pairing sampling techniques in which a certain group was matched according to certain criteria with the firms in the other group. Typically, industry and size have been used as pairing criteria (Bates 1967; Boswell 1973). Marais added that:

“pairing in this manner ensures that inter-firm differences in industry and size do not affect the magnitude of the independent discriminant variables .....”

In this study industry, and number of employees, in conjunction with the working definition, have been used as a pairing criterion. Based on these identified criteria, the sample industry has been drawn from the economically important sector of the British economy, service industry, as well as one which had not previously been studied.

### **5.6.1 Factors Affecting Sample Size**

In theory, there are three factors affecting the selection of sample size:

- a) homogeneity of the population
- b) confidence level
- c) sampling error.

Knowledge about the homogeneity of the population is important in selecting the sample size. If the population is homogeneous, then a relatively small random sample size is required.

The second and third factors are necessary if one is making inferences from the sample to the population. However, the two are related. Confidence level is the percentage indicating the long-run probability that the results will be correct - in other words, how much random sampling error will be tolerated. Sampling error is the difference between the results of the survey in the sample and the results of surveying the entire population.

In order to increase the probability that the population mean lies in the confidence interval, one has to use a higher confidence level (Mohr 1990). The traditional



approach is to use a 95% confidence level (Zikmund 1988) which gives a confidence interval of  $\pm 1.96$  standard deviation. Mohr (1990) suggested that if the 95% interval is too wide to be useful, then one should try 90%.

There is always a certain probability of being in error when one is making an estimate of the population parameter from a sample statistic. The random sampling error varies with the size of the sample (Kerlinger 1986). If the sampling size increases, the sampling error is reduced. However, the size needs to be balanced with practicality and the required time frame to conduct the research. In this study the sample is homogeneous in terms of its size and the industry that it is drawn from. The confidence interval used is 95%, to minimise the systematic error.

### **5.6.2 Sampling Techniques**

There are two approaches towards sampling: probability and non-probability sampling (Kidder and Judd 1987; Robson 1993; de Vaus 1996). In probability sampling, every element in the population has a known non-zero probability of selection. The simple random sample is the best-known probability sample in which each member of the population has an equal probability of being selected. In non-probability sampling, the probability of any particular member of the population being chosen is unknown. The selection of sampling units in the non-probability sampling is quite arbitrary as researchers rely heavily on personal judgement. It should be noted that there are no appropriate statistical techniques for measuring random sampling error for a non-probability sample. Thus projecting the data beyond the sample is statistically inappropriate.

There are five techniques in probability sampling (simple random, systematic, stratified random, cluster, and multistage), and non-probability sampling (quota, dimensional, convenience, purposive, and snowball). Table 5.2 summarises each of the techniques in terms of its criteria and limitations. Ackoff (1953) stated that the ultimate basis for selection of a sampling procedure should be minimisation of the cost of getting the sample and the expected cost of errors which may result from using the method.

	Sampling Techniques	Criteria	Limitations / Advantages
1	Simple Random	Ideal method of drawing sample; involves selection at random from a list of population of required sampling frame.	Time consuming and difficult to undertake. Offers reliable sampling procedures .
2	Systematic	Involves choosing a starting point in the sampling, and then choosing every nth case in the list.	Free from researcher's preferences or prejudices.
3	Stratified	Involves dividing the population into a number of groups or strata where members of group have a particular characteristic or characteristics.	Offers most reliable sampling procedure. Time consuming and laborious.
4	Cluster	Involves dividing the population into a number of units, or 'clusters' each of which contains individuals having a range of characteristics.	Useful when population is widely dispersed and large. Requiring great effort and time consuming. Generalisation limited to population of clustering variable.
5	Multi-stage	Extension of cluster sampling; involves selecting the sample in stages, that is taking samples from samples.	Laborious and time-consuming. Complicated.
6	Quota	Obtain representatives of various elements of a population, usually in the relative proportions in which they occur in the population.	Subject to biases. Only tentative suggested generalisations may be made.
7	Dimensional	Extension of quota sampling; various dimensions thought to be of importance are incorporated into the sampling procedure in such a way that at least one representative of every possible combination of these factors or dimensions is included.	A suitable compromise when comparing groups of extremely different size.
8	Convenience	Involves choosing nearest most convenient persons to act as respondents.	Does not produce representative findings. Probably most widely used and least satisfactory method of sampling. Results only applicable to the sample studied.
9	Purposive	Practical considerations preclude the use of probability sampling; principle of selection is the researcher's judgement as to typicality or interest.	Only tentative suggested generalisations may be made.
10	Snowball	Researcher identifies one or more individuals from the population of interest, After they have been interviewed they are used as informants to identify other members of the population who are themselves used as informants and so on	Useful when there is difficulty in identifying members of the population. Only tentative suggested generalisations may be made.

1 - 5 Probability Sampling, 6 - 10 Non-Probability Sampling

Table 5.2: Sampling Techniques

Source: Adapted from Kidder and Judd (1987), Robson (1993), de Vaus 1996.

### **5.6.3 Proposed Sample Size:**

When conducting research, the ideal sampling technique is random sampling with a relatively large sample size. Without random sampling, it is difficult to be sure that the research has the necessary viability and validity. In reality, one is faced with many constraints (for example, financial, time, and administrative). Bouma and Atkinson (1995) suggest two basic rules regarding sample size for a student's project:

- a) the first rule about sample sizes states that about thirty respondents are required in order to provide a pool large enough for even the simplest kind of analyses.
- b) the second basic rule is that one needs a sample large enough to ensure that it is theoretically possible for each cell in one's analytical table to have five cases fall in it.

The research was conducted in London and Birmingham. The planned sample size for the first stage of fieldwork was 20 businesses (10 Pakistani and 10 indigenous), and 100 businesses (50 Pakistani and 50 indigenous) for the second stage of the fieldwork. However, a great deal of difficulty was experienced in finding, selecting and obtaining the planned sample size:

There was no list readily available identifying IATA approved Pakistani-immigrant travel agents.

Many of the respondents were reluctant to talk about the financial aspects of their business.



Interviews were time-consuming and the respondents were not able to spend much time on talking. Due to the small size of their business they were actively working in the day-to-day operations of their business.

The respondents were not familiar with the value and process of research and did not show any inclination to participate.

Due to the above constraints and taking the suggestions of Bouma and Atkinson (1995) into consideration, the actual sample size was as follows:

Stage 1 of the fieldwork: 5 Pakistani and 5 indigenous businesses

Stage 2 of the fieldwork: 30 Pakistani and 30 indigenous businesses

The sample of Pakistani and indigenous businesses was chosen from the lists supplied by the Association of Pakistani Travel Agents (APTA) and International Air Transport Association (IATA) - ABC Travel Directory (March - August 1995 issue). The selection was done on the basis of the company name, director's name, and location of business. With the help of these lists the researcher telephoned the businesses listed and spoke with the owner of the business to establish their ethnic origin and to brief them about the study, requesting them to send the completed questionnaire back soon after receiving it. A free-post self-addressed envelope was sent to the respondents to reply back.

According to Mitchell (1985), 79% of researchers use non-probability sampling. Godyer (1988) stated that there is not much difference between research based on probability sampling and non-probability sampling in terms of how representative the sample is of the population.



In order to ensure that both groups met the typicality of the research criteria, stage 1 of this study makes use of purposive, and snowball, sampling.

In stage 2 of the research, due to the small size of the total population of IATA-approved Pakistani-immigrant travel agents, all of them were sent questionnaires. The single-site IATA-approved indigenous agents were selected to match the sample. Again, due to the small size of the total population, all of them were sent questionnaires. A postal survey was used to send out two colour-coded questionnaires, blue to the indigenous businesses, and yellow to the Pakistani entrepreneurs. This was done for two reasons - to avoid any error and confusion in data collection, and also to ensure that it would be difficult for respondents to misplace the questionnaires since the colour could easily be spotted and would not be lost among the routine paperwork observed by the researcher during the stage 1 of this research. The survey was conducted during August - December 1995.

A total of 50 questionnaires were posted, together with a covering letter (see appendix 3), to IATA approved Pakistani-immigrant-owned travel agents, and a total of 116 were posted to indigenous business-owners. The first survey produced a response rate of 17% by the Pakistani business owners against 11% from the indigenous business-owners. Twenty-eight out of 116 indigenous businesses had either been taken over by a larger company or had merged with their rivals and formed a larger company and thus were not considered suitable for this study. The businesses which had not responded after six weeks from the date of initial contact were sent reminders by post and were followed up over the telephone. With this effort the response rate increased to 60% from the Pakistani businesses and 34% for the indigenous businesses.

According to Nachmias and Nachmias (1979) the typical response rate for a mail survey is between 20 and 40 percent. Babbie (1990) considers a response rate of 60 percent to be good.

Non-response bias was controlled by the researcher at both stages of the research design. During the first stage of the fieldwork businesses which declined to participate in the research were observed for their characteristics such as location, premises, and ethnic clientele, which were similar to those of the respondents (technique suggested by De Vaus 1996 to enable adjustments for non-response bias).

At the end of the second stage of the fieldwork the financial information on the non-respondents of both stages of the research design was extracted from a CCN business information database. This confirmed the turnover and financial structure of the non-respondents to be similar to those of the respondent businesses. Since the non-respondents were similar to the respondents it is reasonable to conclude that there is neither a response nor a non-response bias. Conversations held over the telephone with the non-respondents, together with the fact that the nature of the travel agency business necessitates the use of English, suggests that language was not a barrier in completing the questionnaires. Due to the homogenous nature of the industry and the fact that both respondents and non-respondents came from various parts of London and Birmingham it is reasonable to accept that the respondent group is truly representative.

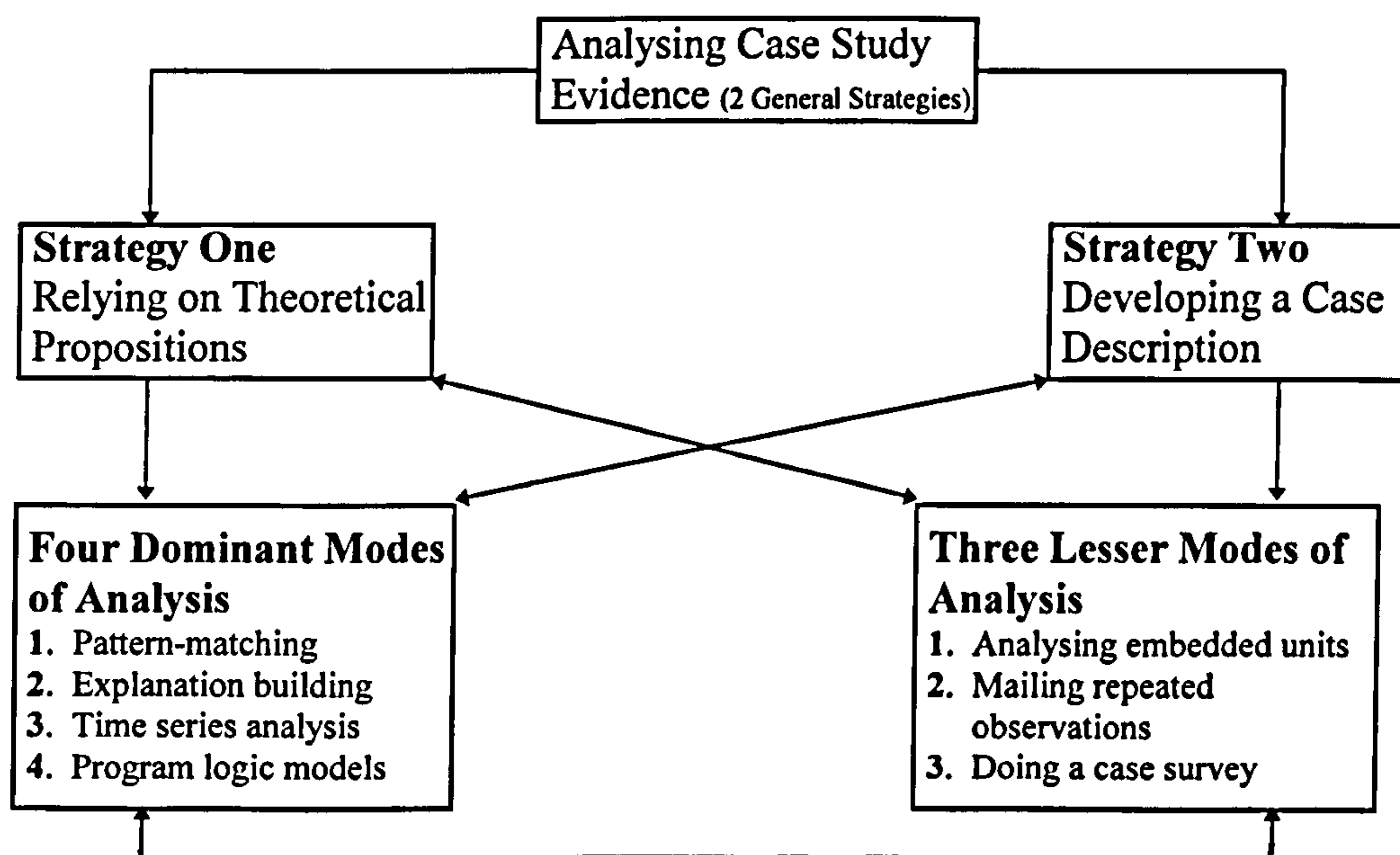
### **5.7 Analytical Strategy**

This stage of the study is considered one of the most difficult and least-developed aspects of conducting case studies. The researcher had read extensively of the

problems highlighted in the literature and had observed colleagues who had simply ignored their case study data for month after month, not knowing what to do with it.

Due to this danger the researcher had a case analysis plan in position developed from figure 5.2 illustrated below.

**Figure 5.2: Analysing case study evidence.**



Source: Developed from Yin 1994.

There are other analytical strategies, for example Pelz (1981) suggests making case study data conducive to statistical analysis by coding events into numerical form. This approach fails to address the need to do analysis at the level of the whole case, where there may be only a single or a few cases. Miles and Huberman (1984) suggest using various analytical techniques, such as putting information into different arrays, making a matrix of categories, creating data displays, tabulating the frequency of different events, examining the complexity of such tabulations, and putting information in chronological order.

These are useful and important techniques. However, much depends on the researcher's own style of thinking, along with the appropriate presentation of evidence (Yin 1994). Therefore, in this study, strategy one from the above model, was adopted as a general analytical strategy. This strategy was preferred since the objectives and the design of the study were based on theoretical propositions, which in turn reflect the reviews of literature, underpinning of the research question, and generation of the hypothesis (See chapter 4).

In addition to the above, a pattern-matching logic, together with analysing embedded units, was followed to compare an empirically based pattern with a predicted pattern (Trochim 1989). It is to be noted here that if the patterns coincide, the results can help a case study strengthen its internal validity (Yin 1994). Table 5.3 below matches the empirically based patterns with predicted patterns explored by this study. To avoid repetition of "hypotheses", each hypothesis is represented by the letter H followed by the number of the hypothesis.

**Table 5.3: Coinciding the empirical patterns with findings of study.**

<b>Hypotheses</b>	<b>Findings</b>
H1	supported
H2	supported
H3	supported
H4	supported
H5	supported

The appropriate analysis of the "unit of analysis" was first conducted in each case. The explanations or patterns for each case were then compared across cases, following the replication mode of multiple cases. Finally, the findings presented by the multiple cases are the overall findings of this study. This approach is in line with the suggestions put forth by Yin (1994), when analysing case study data.



## **5.8 Problems of Data Collection**

Three major problems faced are highlighted here.

The first problem was that there was no readily available information on the whereabouts of Pakistani-immigrant travel agents. Attempts were made to obtain the information from Pakistan International Airlines (PIA), British Airways (BA), the Association of British Travel Agents (ABTA), and the International Air Transport Association (IATA). PIA and BA claimed to not have any records containing the names and addresses of Pakistani-owned travel agents. The researcher had planned to identify these businesses by going through such lists, by using the common Pakistani names of the owners. The ABTA list was not very comprehensive, since it only included the names of the public limited companies and multiple chain operators rather than small travel agents. IATA provided the best possible leads by advising me to look into the ABC travel directory which included the names of the owners, business names, addresses, and telephone numbers across Great Britain.

Due to the lack of an appropriate data source the researcher identified Pakistani-owned travel agents through their advertisements in the ethnic community press. In addition the researcher also contacted the Association of Pakistani Travel Agents (APTA), but access to such information was denied on the grounds that such information is only available to members. The researcher's personal contacts were mobilised, at this point, to obtain this list.

The second major problem faced by the researcher was the unwillingness of the business-owners to discuss the financial issues of the business. Initially, the business-

owners were not keen to talk over the phone, but when they were given the reference of other travel agents who had agreed to participate in the research they felt at ease, although they were still very cautious in answering questions and in discussion.

The third major problem experienced by the researcher is best summed up by Stanworth and Curren (1973) on research into small business:

“Research into small businesses may not be very attractive because the great diversity, individualism and number of small businesses means that valid findings with wide application are not easily come by. The small business owner/manager tends to be a highly self-sufficient person in many ways. He is unlikely to have had any formal management training, and thus does not speak the currently fashionable jargon of the social scientists. Researchers find it easier to communicate with executives in large businesses and the latter are more likely to have time to answer questions”.

## **5.9 Quality of Research Measures**

A research design is supposed to represent a logical set of statements and one can judge the quality of any given design according to certain logical tests. There are four tests common to all social science methods, which have been summarised in numerous textbooks; a good example is Kidder and Judd (1986). Each of the tests has been given the deserved explicit attention.

### **5.9.1 Construct Validity:** establishing correct operational measures for the concepts being studied.

The semi-structured questionnaire used in interviewing contained a number of closed questions and scales which provide specific measures for operationalising some of the

variables studied. However, some constructs, such as networks, are based on interpretative data and therefore are liable to bias.

Three tactics were used to increase construct validity. The first was the multiple sources of evidence, involving the first formal interview, the informal setting over a few visits, and the postal survey questionnaire. A chain of evidence was established in this manner. Finally, the draft cases were read by the respondents. This procedure was adopted as a way of corroborating the essential facts and evidence presented in the case report. It also presented the researcher with an opportunity to either open a fresh line of inquiry or pursue an existing one further, thus extending the review period and going over the same information to extend the chain of evidence. Certain minor modifications were carried out as pointed out by the respondent until an agreement was reached. The last approach further strengthened the researcher's position when the respondents were excited about the write up of their business and wanted to know if it was going to be published.

**5.9.2 Internal Validity:** establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships.

Numerous "threats" to validity have been identified, mainly dealing with spurious effects and inferences. A case study involves an inference every time an event cannot be directly observed. A researcher will "infer" that a particular event resulted from some earlier occurrence, based on interview and documentary evidence collected.

By adopting a multi-case replication approach stronger conclusions are drawn, based on the theoretical propositions. The internal validity of this study has been



strengthened by the use of a “pattern-matching” technique used as an analytic strategy.

This has been discussed under 5.7 above.

**5.9.3 External Validity:** establishing the domain to which a study’s findings can be generalised.

The external validity problem has been a major barrier in doing case studies. Critics of this method state that single cases offer a poor basis for generalisation. However, such critics are implicitly contrasting the situation to survey research, in which a sample readily generalises to a larger universe. This analogy to samples and universes is incorrect when dealing with case studies, since survey research relies on statistical generalisation, whereas case studies rely on analytical generalisation.

The replication logic, involving multiple cases adopted at the analytical stage of the study, enhanced the opportunities for analytical generalisation based on theoretical propositions, thus gaining external validity. Further replication would have provided even greater validity to the findings.

**5.9.4 Reliability:** demonstrating that the operations of a study - such as data collection procedures - can be repeated, with the same results.

The objective is to be sure that, if a later researcher followed exactly the same procedures as described by an earlier researcher and conducted the same case study all over again, the later researcher would arrive at the same findings and conclusions.

The goal here is to minimise the errors and biases in a study. For this reason, careful consideration was given to the procedures that were to be followed for each aspect of the case studied. This included pre-structuring the theoretical proposition when pattern-matching the results.



Despite these efforts, the nature of the case study interview inevitably creates some reliability problems. Non-compliance over certain issues, misrepresentation and incomplete information, all influence the general level of reliability.

### **5.10 Summary**

The objective in this chapter was to establish a philosophical and methodological stance for this study. This was achieved by establishing the basic concepts, ontology, and epistemology, of social science research. Various methodological issues together with two different research approaches were outlined. These research approaches were critically discussed, in relation to this study, on the basis of philosophical stance, aims of the social enquiry, role of the researcher, and researcher-respondent relationship. Different methods of data collection, the research strategy adopted, and research sample are reported here, together with the analytical strategy adopted and the quality of research measures.

This section completes the second section of this study which, together with the previous chapters, covers the literature gap, the research question, research hypotheses, and research design. The following three chapters outline the results of the fieldwork of the study and thus complete the third section of the study.

## **Chapter 6**

### **The Capital Structures of Pakistani-Immigrant Small Businesses**

#### **6.0 Introduction**

This chapter presents the evidence collected from the field work. The evidence is analysed in order to answer the research question and to test the research hypotheses, which are outlined in chapter four. The chapter is divided into six sections. Section one outlines the case study evidence collected. Section two reports on the findings of the postal survey. The third section outlines the contributions made by the family and the role played by the community in mobilising support for small businesses. Financial network typologies are discussed in section four. The role of supplier credit is discussed in section five. Finally, section six concludes the chapter.

#### **6.1 Capital Structures of Pakistani Businesses (Case Studies)**

##### **Case A**

Farooq came to Britain with his family as a young man. He obtained his further education and a Bachelor's degree in electrical engineering from a British university. Having completed his education, he started to look for a job. He was keen to apply for a job as an engineer, but was unable to secure a position. He kept busy working part-time at a supermarket and at a petrol station during the evenings. By this time he became frustrated and was starting to reconsider his options and any full-time job became a priority, whether related to engineering or not. After failing to secure a job with any realistic career pattern he decided to become self-employed.

In 1982 he purchased a travel business through an advertisement in the newspaper. As he was new to this trade he agreed with the owners of the business, two elderly women, to work in the business for at least one year on a full time basis. The business was well-established, the reason for selling being retirement. There were regular customers buying airline, train, ferry, and coach tickets as well as weekend breaks, and holidays.

### **Start-up Stage:**

Farooq did not have the required £20,000 to buy the business.

“I was an unemployed graduate with very little savings with which I had planned to buy a car at some stage. But then this idea came to my mind and rather than spending my savings I started looking around for more money .....

He negotiated an arrangement with the owners of the business to pay the money in two instalments, the first within three months of joining the business and the remaining amount at the end of the year. The owners agreed and he joined the company. He was given training and the customers got to know him. During this period he was earning a nominal salary from the business. He was confident that he had made a good choice in buying the business and the arrangement of the payment could not have been more favourable than he negotiated.

“The old ladies were really nice to me and treated me like their son and I looked after them a lot ..... my parents got to know them as well. So it was like a family with business interest”.

He was very concerned that he had to raise £10,000 soon to pay for the first instalment.



“I had £4000 which I had saved over the period when I was working and sums given to me over Eid (Muslim equivalent to Xmas - the young ones before starting earning, are given some money as a custom by the elder members of the family).”

“I got £3000 from my parents and £1000 from each of my sisters. The remaining £1000 I borrowed from my uncle who runs a waist-belt manufacturing factory. I managed to keep my promise of paying the first instalment on time. Things were smooth ..... . I started to think about how to repay the borrowed funds which I had to pay back soon.”

“I could have approached a Bank for the remaining £6000, instead of borrowing it from my sisters and uncle, but the interest payments were something that I am a little nervous about and also I knew that I would have to pay more than the borrowed amount. So I was not very keen to go to the bank.”

“I was living with my parents at the time and started paying the house bills and footing the grocery bills so my parents would not feel burden of the £3000 loan that I had taken and it was not a problem - I was under no obligation to pay back the money in a hurry. My priority was to first pay back my uncle, or else the family would be indebted to uncle’s family for lending me the money. I did not want that sort of talk - it is not good for me and my parents. I did not want my extended family to think that due to uncle’s money I started the business, so I was in a hurry to pay him back first ..... .”

“I was getting a salary from the business. I spoke with the old ladies and said Look I want to sell more airline tickets to Asians from our community and if I bring more customers will you give me some discount We all agreed that if I could sell more than the usual price, whatever the difference I get to keep that. Though it was not much, sometimes £25 per ticket, other times £65 per ticket, it did pay for my daily and weekly expenses like travelling, cigarettes, and grocery for the house. This meant that I could save money from my salary. After two months or so I paid the £1000 back to my uncle. Now my young sister who has been married recently was my next priority and I started paying her £300 per month and in three months paid her loan off as well”.

Farooq started to consider the second instalment, as he had agreed to pay by the end of the year. He was not too sure whom to ask for money. He discussed this with his parents and they agreed that he could sell a plot of residential land back in Pakistan which his

father had purchased with the intention of returning home and making a family house. Farooq was not happy about this as he thought that he already owed the money to his parents and the piece of land was very dear to his parents, so he did not have the courage to go ahead with the sale of the plot. Moreover, the sale would incur some expenses in travelling to Pakistan, buying presents for the relatives there and so on. Overall he was not keen to go ahead with this idea. He started looking around among his friends and acquaintances who might be in a position to lend him some money and with whom he would be comfortable. Soon he realised that it would be very difficult for him to raise the required funds. Then he realised that the business had a good relationship with the bank and it was worth considering a loan from the bank, although he was wary of interest rates and of owing to banks. He was in a difficult position. He was also concerned with the idea of making monthly loan payments to a bank.

Farooq planned that after paying the second instalment, he would own the business completely and would be able to generate more income for himself to pay off the anticipated loan. His plan included the fact that, if he went to the bank and borrowed the money, he could possibly increase his income since the previous owners of the business would not be there to draw the salary or profits out of the business.

“I thought very hard about it .... many sleepless nights before actually making the visit to the bank. I phoned the bank - the Natwest across the road that you can see - and met the officer he gave me some forms to fill which included questions about the business. I filled these forms and went back to the bank for a loan of £10,000. I told the bank what it was about and the whole story that had happened over the last few months. The bank was very happy with my explanation and enquired about the repayments. I

was told to present a cash flow statement. I used the same accountant as used by the two old ladies and went back to the bank for a loan spread over 36 months. I got the loan without any problem- I could not believe myself, I was very happy.”

Farooq was now the sole owner of the business. He was concerned with sustaining his existing customers and bringing in new customers. He realised that after the two old ladies had retired from the business he had lost some customers, which he put down to racism.

“You know some of these White people want to deal with a White business not, with a Pakistani, even if I were to offer a better price and service”.

He was quick to recognise the problem and decided to re-employ one of the old ladies on a part-time two afternoons per week. He thought that he could stop the remaining White customers from leaving his business. At the same time he started to persuade his own network of relatives, friends, and neighbours to become his customers and to recommend them to purchase flight tickets through him. He had also realised that in the immediate vicinity of his business were the West Indian and Afro-Caribbean community who could also be his customers. He decided to recruit somebody from within this community to spread the word. The rewards of such a strategy were to show soon and the West Indian community members started becoming his customers. He paid a lot of attention to providing competitive ticket prices, last-minute seat-reservations and individual attention. As a result the community saw him as an individual interested in offering a good service.



Over the years he began selling tickets on a wholesale basis to other small travel agents. These travel agents are called “bucket shops”, meaning that they are not recognised by IATA to issue tickets so they use a recognised IATA travel agent like Farooq. He established good contacts with a number of these bucket shops.

Recently one of the bucket shops, that had owed him some money, decided to go into liquidation with debts owing to him. Farooq came to know of this through his network of people in the business. The bucket shop owner is also a fellow Pakistani. He was distressed at the thought of losing the money which he had given to him on credit. He decided to buy the business for the sums owed to him. He undertook lengthy discussions with the owner of the bucket shop to acquire further information with regard to the debt liability of the business. He persuaded the owner that he would not pay him anything extra over and above the owed amount and further argued that this arrangement could save the embarrassment of him going into liquidation.

He was satisfied in his own mind because he saw it as a growth of the business. He knew having another branch would mean having to divide his time between two places. By this time he was married with one child. His wife was also educated and helped him in the day-to-day running of the business. So when he was away from one premises to the other his wife would keep an eye on the business. He was not keen for her to spend much time at the new premises as he thought that he needed to know more about the premises and should spend more time there. The previous owner of the business had not left the

company as yet. He wanted to ensure that the customers got to know him. As he started spending more time at the new premises his old office started having some problems - staff lateness, slackness in selling and office discipline. His wife was more of a back-office worker and was not skilled in the overall management of the business. At this point he decided to bring in his wife's brother who was still at college. The brother Imran was employed on a three days a week basis.

“This was only part of the problem, the bigger problem was to having sufficient funds to run two places”. “As my record of borrowing was good I went back to the bank and asked for a £15000 business-expansion loan and an overdraft facility of £5000. To my surprise the bank's attitude was very different since when I first started the business .... I guess all the adverts I watched on the television showing how easy it was to borrow money was not the case. These were the recessionary times and the bank wanted to know every little detail about both businesses and the overall health of my business operations. Lots of paperwork to fill, reminded me of university days when I had to stay up late reading .... I filled all the forms, went to my accountant, he prepared the cash flow showing how I would be able to pay for the business loan. The bank wanted to charge me 4% above the base rate. I had to argue with the bank manager to make him understand that a travel agency operates on a very small percentage margins. If I took a loan on his terms I would be inviting a disaster for my business. The bank was harsh - they did not want to listen to my problem. I told them I would think about it. I think they thought I would have no other option but to accept their rate”.

“I started looking around other banks - “the black horse bank”, Barclays Bank, the Royal Bank of Scotland, all seemed to charge high rates. One night I was having dinner with my family and my father said, why didn't I use the Habib Bank, a Pakistani bank. I started to look around somebody who knew anybody in the bank. My uncle who had lent me money before had very good relations with the manager of the Habib Bank in East London. So he was happy to introduce me to the bank manager. One day he met me at the bank and introduced me to the manager. I opened a business account with this bank and told the manger that I wanted to borrow the money but at suitable terms. I showed him all the paperwork that I had already prepared for the Natwest Bank. The bank manager said he want to visit both premises and after visiting both premises he offered a loan at 2 $\frac{1}{2}$  % above the base rate.”

At present Farooq is running both places efficiently. He has employed a full-time white manageress for the new business and spends his week between both places.

### **Capital Structure at Start-up**

Farooq purchased his business from the money raised through informal sources followed by formal sources. These sources included;

<b>Informal Sources</b>	<b>Amount (£)</b>	<b>Percentage (%)</b>
Personal savings	4000	20
Parents	3000	15
Immediate family members	2000	10
Extended family members	1000	05
<b>Formal Sources</b>		
Bank Loan	<u>10,000</u>	<u>50</u>
<b>Total</b>	<u>20,000</u>	<u>100</u>

The finance behaviour adopted by the firm shows that debt was preferred to equity. The preferred pecking order of raising finance included internal sources first, followed by the debt and external equity was not considered necessary. The reason for not considering external equity was due to the fact that the debt raised through the bank loans was easily available. The business owner was not happy to share control of his business by raising funds through external equity, but he was happy to take the risk of taking on a debt from the Bank.

### **Capital Structure Since Start-up**

The business owner did not face any financial strain on the business apart from at times his desires for more profit not being fulfilled. The business was funded by the income generated through sales, and tight control on the business expenditure kept it financially



a float. In addition he followed new avenues to sell his services and was very dynamic in his selling approach.

The main source of finance he relied upon at this stage of the business was supplier credit - until he wanted to buy another business, for which he preferred to raise finance through a bank loan and an overdraft.

<b>Sources</b>	<b>Amount (£)</b>	<b>Percentage (%)</b>
<b>Formal</b>		
Bank Loan	15,000	75
Bank Overdraft	<u>5,000</u>	<u>25</u>
<b>Total</b>	<u>20,000</u>	<u>100</u>

#### **Role of Family:**

His family played a critical role in mobilising their personal savings as an initial source of finance. Family as labour was also very supportive towards the business. Farooq's wife played a critical role in taking over part of his role when he had to divert his attention to the new venture. Recruiting somebody trustworthy, like his brother-in-law, at short notice was not easy and that is also where family played an important role.

The psychological support was also offered by the family members being able to discuss the matters facing Farooq in his business life.

“You know it is nice to go home in the evening and discuss with your family what you had done today, or somebody they know came in today to enquire about travel and before they hear from them you already know the person is planning to travel”

“My uncle also told his customers that his nephew can offer cheap fares if they were to buy tickets from me - all this helps. I tell my employees if they want a waist belt that they should go and see my uncle”

### **Business Economy and Networks**

Having a good reputation in the community also helped him by spreading word of mouth the use of his services. His contact with the bank manger through his uncle and the development of his wholesale business to bucket shops are all examples of community networks in practice.

Most of his single seat (retail) customers are immigrants of Pakistani origin, usually purchasing tickets to travel to Pakistan. The majority of his resale tickets are also sold to destinations of the immigrant-customer's ethnic origins.

### **Case B**

Ali came to Britain in 1964 as a student. On arrival he stayed at a students' hostel initially and then he found cheaper accommodation, sharing a room in a house with other fellow students. During his summer holidays he started looking for jobs and undertook all sorts of work, ranging from working in a packaging factory to working as a newspaper boy.

“Those days it was impossible to get a good job - not like today. All the jobs I got were through other people working in the firm. If you went along asking for a job no-body was interested in you”.

“I was living in Walthamstow and when I had to visit Pakistan there was one particular travel agent who every-body would visit. I also became his customer”.

“In those days there were not many Asian businesses and all the Asian customers knew of the Asian businesses”.

After finishing his studies he married and started working for one of the Pakistani incorporated Banks. He worked for four years in the bank and was not happy since he was not satisfied with his salary and wanted freedom of work. He looked around for business opportunities and was not sure what he could do. For some time he was unsure and would talk to his wife about it and then just leave things as they were. After having his first child he really felt that he could not continue like that any longer and had to set up a business.

“I was transferred to the bank’s branch in Walthamstow. The same travel agency owner from where I use to buy tickets had an account with the bank and sometime would come to make a deposit or for sending drafts to Pakistan. I got to know him. During the holy month of Ramazan I would also meet him at the mosque in the evenings. One day after prayers I decided to talk to him about my idea. I simply asked him if I bought tickets very frequently from him would he allow me some discount. He must have thought that since I worked in the bank I must know a lot of people from Pakistan who wished to visit Pakistan. He agreed and said, Well as long as I bought on cash he would give me £20 per ticket - that was quite a lot of money in those days. I started to spread word of mouth to my friends that if they were thinking of buying a ticket to get their best price and let me know and I would try to get them cheaper than that. Sometime people gave me false prices which I knew they could not get, so I was unable to beat their price. Most of the people gave me prices which I managed to beat. They would let me know their travel details and the price they could get their ticket at and I would try to get it done for them. People would phone me in the evening and I would contact the travel agent either lunch time or phone them when nobody was around in the office. Once it was all arranged I would get the money from the customer and deliver the ticket in a couple of days. I got quite busy in the evenings or at the weekend when people would phone”.



“Then after two years of this the bank decided to transfer me to the Knightsbridge branch. I was very nervous, but since this was my main income I had to go. There also I made some very good contacts and people started to contact me regarding their travel arrangements. After six months of working there I started making enquires from the Pakistan International Airlines (PIA) that if I were to buy from them as an independent travel agent how would it work. It was all in my favour. I did not have to buy from this bloke in Walthamstow - I could simply buy - from the PIA provided I was a travel agent. I decided to set up a travel agency myself. I did some “Hisab Kitab” (income and expenditure calculations in this instance, but can also be used as balancing accounts) and had to decide if I could look after my family and my business with the income. It was very tight, but I was all excited about the idea of having my own business.”

Ali started to look for business premises. In 1985 he decided to work from central London, just off Oxford street. In his view it was an ideal location for his business since he had customers in East and West London. In addition it was easier to rent a small room in a big office block, giving the impression that he must be successful to have a business at such premises.

“I started off with my savings that I have been putting aside for this day. My wife has been very supportive - we never touched the money from the ticket sale. My salary from the bank used to pay the bills for the house and other things. I also spoke with my parents in Pakistan and told them about my plan of setting up the business. I had £15000 saved over the years. I was very careful not to spend all of it. So I went along and spoke with the bank manager where I was working and asked him if I could seek an overdraft facility from the bank. He allowed £1000 per month overdraft facility.”

Ali did not spend much money on office furniture or decoration. He initially bought two second-hand desks, six chairs and two phone lines. A couple of posters were given to him by the airline promotion offices which he put on the wall. He was doing well, so he could devote all his energies to the business. He left his leaflets of cheap flights outside

the mosques, delivered through the doors in some of the areas and soon the word spread around and he was getting phone calls for ticket rates.

“I provided good service to each customer, phoning them if I did not have the seats on the day when they wanted - in the case of emergencies dropping tickets at their houses or even at the airport.”

Soon he realised that he had to employ somebody to handle the increasing number of telephone calls. He recruited an ex-employee of another travel agent. Later on he also gave a part-time job to a person related to him from his in-laws. This was an elderly person. His duty was the collection and delivery of the flight tickets. Soon the business was flourishing. Being in the heart of London meant that he could also attract the potential passer-by trade. During the summer he would get enquires about cheap holiday flights or visitors to the UK asking for cheap flights to Europe. He also started to offer internal flights, European flights, and flights to the Middle East. He soon realised that the flights to the Middle East are very lucrative if he could organise *Haj* pilgrim travel arrangements. He followed this and started to offer a complete *Haj* visit service.

“I saw that many old people wanting to go to *Haj* were facing difficulties in organising the visa to Saudi Arabia, buying a ticket, making arrangements for accommodation, and while there making local travelling arrangements. I felt good in helping these people not only as a business but also religiously

His business was expanding and he decided to take larger premises. He moved a few blocks away and rented larger offices. He decided to take in a business partner to further expand the business. He made an offer of partnership to one of his old colleagues from

the bank to join him in the business who was thinking of leaving the bank and setting up his own business. This partner paid Ali an undisclosed sum for 50% of the business and started working in the business. Ali and his partner both worked side by side in the business.

Both of them decided to get IATA membership for the business and started to make enquires. Since the business was able to meet the IATA license criteria - turnover, share capital, profitability and liquidity - Ali and his partner decided to become an IATA approved agent. They both went on the training course for the IATA membership requirements. They also had to install a few computers which were financed from within the business. A Bank Settlement Plan BSP was set-up between IATA and Ali's company. This provided the opportunity to have a healthy cash flow and the use of funds up to six weeks prior to the BSP transfer date.

At present Ali is running the business himself with two family members and eight non-family employees. His partner has left the company and has set up his own travel agency. For obvious reasons his ex-partner was not accessible for inclusion in this study.

### **Capital Structure**

Ali started his business primarily with his own savings. He had negotiated with a bank for an overdraft facility which he used from time to time. He had not taken any business/personal loan.



The decision to sell off the 50% of the business and to bring in the partner also helped him to expand the business further. After the start-up Ali financed the business by supplier credit, and a overdraft facility. Throughout the life of the business Ali has not borrowed sums from the bank as a loan, although he has made use of the bank overdraft facility.

<b>Informal Sources</b>	<b>Amount (£)</b>	<b>Percentage (%)</b>
Personal Savings	15,000	94
<b>Formal Sources</b>		
Bank Overdraft	<u>5,000</u>	<u>06</u>
<b>Total</b>	<u>20,000</u>	<u>100</u>

The finance behaviour adopted, matches closely with the Pecking Order Hypothesis whereby Ali financed his business firstly by personal equity, then debt (overdraft for short term) followed by external equity. However, the post start-up stage of the business has primarily been financed by the supplier credit (BSP), though the business has resorted to an overdraft occasionally.

### **Role of the Family**

Ali does not have his immediate family in the UK. His brothers and sisters are in Pakistan with his parents. He plans to go back and join them there, but he is not sure how his wife would feel about it. His in-laws are in this country and are scattered all over the UK. For cultural reasons he does not feel like calling on them for financial help for his family or business. He prefers to go to his friends first and seek some assistance should it be necessary. He has a very active social network of friends who are interested in Urdu

poetry. Ali himself is a keen enthusiast of poetry. As a result a majority of the amateur poets and their fans buy tickets from Ali.

He has deliberately tried to kept the operations of business away from his in-laws and family members. He mentioned as a piece of advice to the researcher:

“never get your in-laws involved in your affairs, especially your business.  
You will end up making decisions which will leave you in ruins”

There are only two people working in his business who are members of his family. One is an elderly person related to him as an uncle of his wife whom he respects very much and he gives him the less technical jobs, like delivering the tickets, visiting the post office and such related activities. The other is a son of his extended family relation whom he calls “aunt” who has been in the UK for quite sometime. All other employees are non-family members.

### **Business Economy and Networks**

Ali’s business has a concentration of immigrant clients. All the services provided by him are focused on the ethnic community and only a small proportion of his turnover is earned from selling tickets other than to the immigrant community. Though his business is very well-located he has not concentrated on the other sectors of the travel market. He feels that for him to do that he has to compete against many firms and that is very risky for him. He sees himself well-placed in the ethnic niche market.

He is a great believer in serving the needs of his own community. He thinks that if people like him did not look after their own race no one else was going to look after them. He explains:

“Try travelling by British Airways to Pakistan; they charge you all you earn in one month, whereas PIA will charge you virtually half of it”.

At this point another question was raised concerning future business plans. Ali does not want his children to take over his business. He intends to sell the business at some stage and retire, since he wants his children to be well-educated professionals.

“I do not want them to suffer like me - economics degree for what! to run a travel agency - OK it is good money, but very hard work.” I want my son to become a doctor and work in the hospital as a consultant - good status, good life, better money than a travel agent”.

He is doing well from his *Haj* pilgrim business and is well-known in the community. The Pakistani-immigrant community in return also recognises his services and are loyal to him as his customers.

### Case C

Mr Malik arrived in Britain during the early 1960s. On his arrival he stayed with his fellow country people who had arrived earlier than himself. All of them came from the same area, Jhelum in Pakistan. There is a very strong sense of solidarity among them. Firstly, they all belong to the same *Biraderi* and area, and secondly they all were migrants. Mutual help was being practised to a maximum extent - sharing



accommodation, finding work for one another and if one is not good at cooking he could perform some other duty like shopping, or cleaning, in the house.

Mr Malik was introduced to a factory in Rochdale as a plastic-injection moulder. He worked six days a week and on the seventh day he rested and did his washing and ironing. For very many years he worked in the same business and became good at his job. He got married back in Pakistan and within a few months of marrying brought his wife to the UK as well. On his wife's arrival he rented a house and started living with his wife. His wife was not well-educated and could not work. Through the help of other fellow married couples he found work for his wife. The work involved stitching clothes from already cut patterns which were dropped and picked from her house twice a week. With his savings he bought her a second-hand sewing machine.

In order to supplement their income Mr and Mrs Malik started a catering business. Whenever there was a wedding or some celebration with a gathering of people they would cook according to the customers' specifications and deliver. The business developed due to his wife being good in cookery and personal relations. Since her arrival in the UK she had made a lot of good friends and was close to lots of other families. Initially she used to go to their place and assist them in the preparation of food and cookery. Then they decided to do this as an income-generating activity. They would quote a price to the customer, invariably their friends in the community, neighbourhood, and *biraderi*. They bought some big pans and used to cook at home and deliver by taxi

whenever necessary. This worked out profitably for a long period of time. During this period Mrs Malik had children and whenever she was well enough she use to take the orders again.

“It was not like that we were getting orders everyday or every week, but when we did get these it was good money.”

Mr Malik kept working in the factory. Mrs Malik did the sewing and catering. Then with the ever-increasing number of people being invited to these celebrations, Mrs Malik was unable to cater for most of the functions and only cooked for small gatherings.

After a few years Mr Malik decided to move to Birmingham where he got a job as a bus driver. In the early 1980's he decided to set up his own business.

“I went down to London to see a friend of mine who had been in a travel business and was thinking of returning to Pakistan since he had three grown-up daughters and wanted them to be married in Pakistan. When I got to London he told me that he had sold the business already and was concentrating on establishing links for trading prior to his return. We spoke at length and he proposed that I should meet this person who had bought the business from him. All three of us met and it was decided that I should set up a travel agency in Birmingham which would buy tickets from the agency in London. The purchaser of my friends business said that they would provide me with training and all the details needed. I came to Birmingham and thought about it. The most important thing was the money - I was not too sure if I had sufficient money. I sat with my wife - we looked at our total savings and thought about it. Then I started to find out about the rents and other expenditure. Finally, I decided to do it. I rang back to my friend in London and told him that I was all for it.”

Mr Malik took a week off from his job and came down to London to see how the travel agency was run.. He spent time in the business and went back to Birmingham. On his

return he started to look for premises and found a shop. He paid some rental deposit and bought some second-hand furniture. He started advertising in the Urdu newspaper and local press for his business. People in the local community came to know through word of mouth that Mr Malik had set up his own travel agency business.

“I used in total £10,000. I had a saving of £6000. I borrowed £500 each from two of my friends. My brother-in-law lent me £1000. My friend in London lent me £2000. I did not go to the bank since I was not happy to take a loan out. The interest charges and all the pressure - I was not happy with that”.

Mr Malik had to struggle initially as he was learning and trying to make a success of his business. He was not very good with the “paper work” and initially did not pay any attention to it. After some time he realised that he could not afford to do that if he wanted to run the business successfully. He wanted a part-time employee, but could not afford to hire one. On a few occasions his business did not have any funds and he could not pay his wife for household expenditure. His wife decided to undertake some work at home as she used to do in the past. There was a demand in the area for his wife to fry food at home and supply to the Indian shops in the area. Through this she generated sufficient income to buy groceries and household necessities. She was also a member of the local *kommitti* group. She contributed every month £50 for 24 months and when her turn came she received the money and saved it for rainy days. Whenever there was a shortage of funds she would dip into this fund and help the family or her husband’s business.



After the first year of business Mr Malik decided to employ an office administrator to work in the afternoons five days a week. At the same time he employed an elderly person whom he had met in the mosque to assist him with general duties like teas / coffees, locking and opening up the premises. He used the overdraft facilities and turnover to fund the business. By this time he had learnt about the business and decided to deal as a Pakistan International Airlines (PIA) agent in Birmingham. This way he improved his margins since he was not being charged a commission by another agent.

In 1986 his eldest son, Naveed, joined him and began to modernise the business. He introduced the idea of organising the *Haj* pilgrimage as an all-in service. He also started selling tickets to other parts of the world like, Turkey, Cyprus, India, and Bangladesh. Nevertheless the core of the business remained selling tickets to Pakistan. Soon they moved to bigger and better premises. Naveed decided to improve the image of the business to pull in the passer-by trade and to scare off competitors. He decided, much against the will of Mr Malik, to take a loan of £8000 from the bank for business development. He wanted to use this money to offer additional services like freight and travel insurance. He targeted the universities and polytechnics where overseas students were studying. He knew that these students want to visit home during holidays and would be taking luggage with them when they completed their studies. He actively got involved in student events like Muslim students' unions and Pakistani students' unions, and generally where-ever he could find some students together he would spend some time. Since such events took place in the evenings it suited him to attend after office

hours. His approach started to pay off and he started to get enquires from students. The revenue began to increase and he also put his father, who had thought that Naveed was being flamboyant, at ease. Soon Naveed realised that he needed an efficient back-office staff to deal with travel arrangements with the airlines. He brought his sister who had recently completed her HND in business and finance at one of the local colleges into the business.

Then they decided that they should apply for IATA approval. Naveed's sister did the phoning around and collected the information. They realised that a certain amount of investment would be needed to improve the business prior to submitting an application to IATA. They worked out a plan that over the next two years they would invest in the business by improving the office premises, security, and equipment like computers, and then apply to IATA.

They worked according to plan and improved the business through a series of financial investments from supplier credits, and were awarded an IATA licence. Since obtaining IATA approval Naveed admits that the business has developed further in terms of its profitability and growth. They have a better cash flow situation and profitability has also been improved. Better control in issuing tickets, the BSP submission dates all helps him to run the business efficiently.

“Now I do not have to please other IATA agent to do me favour by giving a credit for three weeks instead of two - I can concentrate on sales and the money is making money for me in interest .....

At present, Mr Malik is virtually retired, Mrs Malik spends her time at home but she actively participates in a *kommitti*. Naveed runs the business with support from his sister. Two of their female cousins and one male nephew also work in the business. They also have three non-family members working in the business.

### Capital structure at Start-up

Mr Malik invested a total of £10,000 in his business. He raised this through personal savings, friends and extended family:

Informal Sources	Amount (£)	Percentage (%)
Personal savings	6000	60
Friends	3000	30
Relative	<u>1000</u>	<u>10</u>
<b>Total</b>	<b><u>10,000</u></b>	<b><u>100</u></b>

It is to be noted here that what is stated as personal savings by Mr Malik are in fact savings from his wife and himself and not only his as he has implied.

After the start-up stage of the business Mr Malik's son raised finance through the following sources

Formal Sources	Amount (£)
Bank Overdraft	4000 (maximum limit)
Bank Loan	8000
Supplier credit (BSP)	(used frequently)

The finance behaviour adopted has been to use internal equity as much as possible, followed by debt. Naveed has resorted to bank loans and bank overdrafts in the past. But given the present state of the business they are quite happy to use internal funding for any



future investments. The supplier credit (BSP) keeps the cash flow healthy. These funds are often invested in a high-interest earning account for a period of four weeks. The interest earned is kept by them and the principal amount is transferred to IATA. They are not interested in diluting their interest by inviting external investors and their equity.

### **Role of the Family**

Mr Malik praises his wife and acknowledges that without her help it would not have been possible.

“When I was concentrating on the business she concentrated on the house and made sure that it ran smoothly without having to add any extra burden to me.”

The family was also instrumental in spreading the word to the community about his business. His *biraderi* from Rochdale was also supportive in referring people to him for travel tickets. The family members are employed as loyal, trustworthy, and low-cost workers. His children are the main driving force behind the business today.

### **Business Economy and Networks**

Mr Malik's business is firmly established in the Pakistani community. Being in Birmingham the majority of his customers are Pakistanis, though there are some other immigrant groups which are also his customers. On a very rare occasion he receives an indigenous customer enquiring from him. This does not bother Mr Malik, though his son is very ambitious and is always seeking to improve his business by selling various sorts of tickets to whoever he can.

Mr Malik has been introduced to the travel industry through his networks. His expertise today primarily stems from the contacts that he has nurtured over the years. With the arrival of his son in the business he has concentrated on selling to the Pakistani-immigrant community, while his son has concentrated on selling to international students and other immigrant communities in the local area.

#### **Case D**

Mr Shah arrived in the UK in the early 1960's as a worker. He had relatives who were already in the UK. He also had some friends from his own neighbourhood in Pakistan. On his arrival he was received by his friends and relatives who looked after him. He stayed six months in London and then went to Manchester and was placed by his friends in a clothes manufacturing company as a presser. At the time he did not know much about the work, but his friends there trained him and he worked there for a period. One of his relatives had moved down to Nottingham and invited him to come and work in a factory. The pay was better so he decided to leave Manchester. He stayed there for a long time until his relatives in London were asked by his parents in Pakistan to get him married. He was forced by his relatives to come down to London as it would be easier for them to seek a suitable match. He left the job in Nottingham and one of his firm's suppliers offered him a job in London. He started working in a clothes shop as a salesman. On Saturday he could go shopping and spend time with his relatives.

After his marriage he was still working at the same warehouse; his wife did not work. He started to think about his future and knew that he could not spend his life like that. He wanted to provide a better life for his children.

“I came with no money to the UK and with what I earned here I looked after my family back home. I want my children to have a good standard of living which I could not get when I was at their age.”

On a less busy day at work he would take a walk in the area where he was working and see what kind of a business he should enter into. On Saturdays he started seeing other businesses. He saw an advertisement in the local paper to train as a travel agent and decided to follow it up.. He found out that it was offered by another fellow Pakistani in the West End of London. He was interested in the proposition and decided to take the training sessions on Saturdays.

“It was very interesting, but simple - I did not have to work hard at all to learn it ... Mr Riaz (the trainer) gave me a booklet after the course to help me in case I got stuck. I finished the course and started to put a word out that I could arrange their tickets. My friends and relatives all knew that I could get tickets at a good price. I was still working at the shop and on Saturdays and week-day evenings I was doing - tickets business. I was not too sure of myself, if I should take the business premises and leave my job. I was scared that if it did not work out ..... but then I knew if I did not try I would not know - I started to look around for the money and premises.”

He decided to seek for premises in Walthamstow where he lived and knew the local community well. After initial enquires he knew that he could find a business premises at a price he could afford so he resolved to raise the finance for the deposit and refurbishing the premises.

“I needed £8000 to ensure that the business would get off the ground and could operate smoothly. I had £5000 of my savings and decided that I



could raise some money from my friends and other people. I decided to start the business and thought of looking for the remaining money as I went along.”

“I signed the rental agreement for the shop which was owned by another Pakistani. I paid him the deposit and started decorating the shop, bought some old chairs and desk and put in the phone system. Riaz (the trainer) visited and gave me some ideas as well as some promotional material to display and soon it was all different. The business got off the ground”.

“I went to the local Habib Bank (Pakistani bank) and opened an account. At first they did not offer me any loan or overdraft or anything. Now it is different, I have my customers working in the bank, in particular a boy I got over to the UK from Pakistan. I have an overdraft facility of up to £2000. I have also opened an account in the Natwest Bank but I do not use any facilities from there. I only asked them for a mortgage when I wanted to buy this property but they wanted a lot of paperwork so I did not bother with them.”

“I borrowed the money as I went along doing the business and paid back, if not all, part of it as I promised and the rest later. My father-in-law lent me £1000 when I was short of my rental payment and a few bills. I paid him back in three months. I felt that if I did not give him back the money when I promised, next time I would not be able to borrow from him again.”

Mr Shah realised that the business was improving, so he decided to employ a secretary on a part-time basis to answer telephone calls and take the travel details. He also offered a Saturday job to his nephew and another nephew in the evenings when he was not attending college.

“I also borrowed £500 a few times from my friends in Nottingham, but I paid them all back. These friends were very supportive in telling their friends and relatives to come to me for tickets. I kept them all happy by selling tickets at very reasonable prices.”

After six years in the business he began to look for better business premises nearer to the busier section of the high street.

“I moved here a few years ago. I own the whole building, the flat upstairs is on rent that I collect.”

At present Mr Shah is in business with one full-time and two part-time assistants. He is an appointed agent of Pakistan International Airlines and is proud that he is one of the few such agents. Being in the area a long time, he has established good personal contacts in the community. People who have moved away from the area are still his customers and the norm is that if he gets to know that they have travelled and did not buy the ticket from him it can create bad feelings between the parties. People who move into the area see him as a person with community knowledge and respect. He plays an active role in organising weddings for local Pakistani families, the visas of spouses from Pakistan, funerals and other community services, together with arrangements for the elderly to perform *Haj*. This all helps in his business.

### **Capital Structure at Start-up**

Mr Shah needed £8500 to start the business which he raised from the following sources:

<b>Sources</b>	<b>Amount (£)</b>	<b>Percentage (%)</b>
<b>Informal</b>		
Personal savings	5000	59
Relatives	1000	11
Friends	500	06
<b>Formal</b>		
Overdraft	<u>2000</u>	<u>24</u>
<b>Total</b>	<b><u>8500</u></b>	<b><u>100</u></b>

### **Capital structure since start-up**

Mr Shah has not been keen on the idea of taking out a loan. He admits that he has never actively made efforts to seek any kind of loan except for a mortgage. He has tried to use his savings well and his friends and relatives have been helpful to him. He looks after them now that he is in a better financial position. He does not want any partners in the business either.

Since the start-up stage of the business he decided to take larger premises more central to the high street. The building that he has purchased is on a mortgage which is paid substantially from the rent received from the flat, and the remaining balance is covered from his business.

<b>Formal Sources</b>	<b>Amounts (£)</b>
Supplier credit (BSP)	(used often)
Overdraft	2000 (limit)

He is also not ambitious at this stage of his life. He is happy to control and manage what he has at present.

“You know, son, there is no limit to man’s desires. I have made all this today - I have a decent life, better than I would have had in Pakistan. I do not want to burden myself anymore. My kids have their own fate written by God ...”

The finance behaviour of Mr Shah’s business is in line with the Pecking Order Hypothesis. He prefers equity to debt and debt to external equity. Hence he has not made efforts to obtain a business loan, or bring in a partner. He prefers total control over his



business and bringing in a partner would mean sharing control and power in the business and he is not sure that the business would get any better, so in the longer term he feels he would earn less than at present if he were to bring in partner. He also feels that bringing in a partner could create friction which could also affect his reputation in society.

### **Role of Family**

Mr Shah's family played an important role in lending him money to start-up the business, but since then he has never asked them for more. His children are not working in the business as it is against his and his wife's wishes.

He continues to receive strong support from his family. He receives customers recommended by his family. His personal reputation in the area and in the communities he lived in before, i.e. Manchester and Nottingham, also help his business.

He feels that his wife has not been able to work with him because of the technical nature of a travel agency business. He realises that his friends in the grocery business receive assistance from their families and thus share the burden. In his case he realises that good selling skills, technical knowledge and on-the-spot pricing are the essentials in this work and he thinks most of the Pakistani women like his wife are not able to do that.

### **Business Economy and Networks**

He is operating his business from an area which is dominated by the Pakistani-immigrant population. A majority of the businesses around him are owned by fellow Pakistanis.

The other travel agents in the area are also from Pakistan. All his customers are from Pakistan. He is also the secretary of the Association of Pakistani Travel Agents (APTA). Other agents from whom he buys tickets are also Pakistanis. He has numerous contacts in the Pakistani community and is well-known.

He is not interested in offering a wider range of services to a wider range of customers. He is content at this stage of his business and looks forward to retirement. He has no firm plans as yet concerning the business when he retires, at least none were revealed to the researcher.

### **Case E**

Rahim came to this country with his parents. His father arrived in the UK first through an uncle. Rahim, his brothers and sisters, and the rest of the family joined him later. Rahim studied here while his father worked in various jobs. His mother also worked from home to generate more income. In the early days things were difficult, but gradually began to improve.

Rahim studied in east London and after leaving college decided to help his family rather than go on to further studies. He started working in a supermarket. Then he got a job as a petrol station attendant. Then he got a job in Littlewoods as a sales assistant. He worked there for a long period. Then he decided to set up his own ladies' and children's clothing shop. He had a good contact from whom he could buy rejected and second-class

clothes with brand names. He knew that he would succeed by selling brand names at low prices. In addition to this he began selling non-branded clothes made by local manufacturers. Then he introduced other products like household goods and children's toys. He was very well-known as a seller of children's indoor games imported from Pakistan.

“I started it all since my father-in-law had a shop selling household goods and he was not doing well. I gave him the idea if we were to upgrade the shop and turn it into clothes shop we could do well. He was happy with the idea, but I had to look for the money to upgrade the premises. I started looking around for the money. I tried the council to see if they would lend us money, but the business did not qualify for a council grant. Then I decided to take a bank loan. The bank was willing to lend us the money, but they wanted the property as a collateral. My father-in-law was not prepared even to discuss it; he was afraid of loosing the property in case we were unable to pay the loan back.”

“I left my job and started to sell clothes outside my father-in-laws shop. I saved money bit-by-bit and decorated the shop myself; sometimes my friends helped me. My wife was also supportive; the money we got a couple of times from her *kommitti* was used in the business. Sometimes my father-in-law also put in the money. My clothes stall was making a good profit - I bought a second-hand van and started to go on markets on Saturdays while my wife helped me with my stall outside the shop and her father in the shop. This further helped us in earning more money. I opened a business account. The bank instantly offered me an overdraft facility, though I only used it now and then - if it was winter and snowy then there was no Saturday market, so I had financial difficulty from time to time.”

“I must have spent around £15000 on decorating the shop, buying the van, stock and other things, over two years. I had £3000 saved from my previous jobs. My wife twice gave me £1800 which she saved through her *kommitti*. The rest of the money I generated through the business and spent it on the business when I could afford to spend it.”

The researcher asked Rahim's wife about the way that the *kommitti* operated. She explained that she saved £100 per month and contributed to the *kommitti* for eighteen



months and when her turn came she was given £1800. The mechanics of the *kommitti* were that an elderly woman from within the community would generate interest in a *kommitti* by visiting various neighbourhoods and asking them to participate. Only reliable and trustworthy individuals with good relations in the community would be preferred, and a group of eighteen people was formed, each giving £100 per month for eighteen months. The size of the group was flexible, but the norm was not to have more than eighteen people. The organiser would draw a *Perchi* (similar to a raffle ticket) out of eighteen *Perchis* each with a name of a participant to decide who won this month. If somebody needed it desperately, then with the consent of the group there did not have to be a draw. She would visit the person and hand over the money. There are no written records or signatures.

She also told me that many households prefer this method of payment since it is an Islamic way of helping others. There are no interest charges, no profit/loss element and transactions are conducted purely on the basis of trust and mutual respect.

“Nowadays the younger generation is also following this method. These days they have “*Kitty parties*.” They all meet in a restaurant and have lunch together. The person whose turn is it pays for the meal and they hand over the money to her. Some people also do it at their home, if they are comfortable to cook and cater for, big number of people”.

In 1986 Rahim set up a travel agency as he saw it had potential. He set up the travel agency office at the back of the shop. Initially he bought tickets from a travel agent in the City but soon went directly to the PIA to buy the tickets.

In 1992 his father-in-law retired and it was difficult for him and his wife to manage, so he decided to bring his younger brother into the business to look after the shop while his wife worked on a part-time basis. In 1993 he moved the travel agency on top of the shop, while his brother looked after the shop. Two of his nephews also work with him.

At present Rahim is making a decent living. He considers that he made the correct decision.

### Capital Structure at Start-up

Informal Sources	Amount (£)	Percentage (%)
Personal Savings	3000	45
Kommitti	<u>3600</u>	<u>55</u>
<b>Total</b>	<b><u>6600</u></b>	<b><u>100</u></b>

Rahim began the travel agency business as a spin-off from his retail business. He had a certain amount of finance available to him from the cash flow of the existing business. In addition to this his fixed costs remained the same since he was using the existing retail shop premises. He might have been successful in securing a bank loan had he wanted to. The entire business at the set-up stage was financed by personal savings, plus his wife's contributions through *kommitti*.

### Capital Structure Since Start-up

Since the start-up stage of the business Rahim had been financing the business through the profits made from this operation. He enjoyed the advantage of using the same premises as his retail business and therefore the travel business did not incur any fixed

costs. As a result the profits earned were used to enlarge the business. After six years he decided to break away from the retail shop both physically and financially. His fixed costs were still low since the building was owned by his father-in-law and he was not paying rent. His overheads had started to rise since he had taken on more staff and more equipment. At this stage of the business his main sources of finance were supplier credit and bank overdraft.

### **Role of Family**

Rahim's family had played a very important role in supporting him. Initially, his father-in-law allowed him to conduct the business from his shop without any cost to Rahim and later gave him a space in the shop and finally a whole floor above the shop. This was the key to his success, since he did not have to worry about fixed costs like rental, rates and insurance costs, and his overheads were low.

His wife supported him financially through the *kommitti*. She also worked in the retail business while he concentrated on the travel business. He also employed members of his family to work in the business - initially his wife, then his brother, and then his nephews. All these were employed on a trust basis and preference was given to family members for the purposes of employment.

### **Business Economy**

Rahim's customers are predominantly of immigrant background. The main focus of the business is selling tickets to Pakistan, Bangladesh and occasionally to India. He sells tickets to other sectors like, USA, Canada, and the Middle East very occasionally.



His main supplier is Pakistan International Airlines. He has not made a serious effort to break into other travel-related activities.

The patterns emerging from the above case study data are summarised in table 6.1 and 6.2 below.

**Table 6.1: Tendencies of capital structures among Pakistani-businesses.**

CASE	Year Started	Organisation Status	Location	Owners Qualification	Ownership Structure	Informal Sources	Formal Sources	Network Typology
A - Start-up	1982	Private Ltd Company	High Street	Degree	Entrepreneur	Personal Savings Wife Uncle	Bank Loan	Personal Symbolic Institutional
Since Start-up	_____	Private Ltd Company	High Street	_____	_____	_____	Supplier Credit	Personal Institutional
B - Start-up	1985	Sole Trader	Home	Degree	Entrepreneur	Personal Savings	Bank Loan	Personal Institutional
Since Start-up	_____	Private Ltd Company	High Street	_____	Entrepreneur / Partner	_____	Supplier Credit	Personal Symbolic
C - Start-up	1980	Sole Trader	High Street	O &A Levels	Entrepreneur / Wife	Personal Savings Wife	Bank Overdraft	Personal Institutional
Since Start-up	_____	Private Ltd Company	_____	_____	_____	_____	Supplier Credit	Symbolic Institutional
D - Start-up	1981	Sole Trader	High Street	O &A Levels	Entrepreneur	Personal Savings Relative Friend	Bank Loan Bank Overdraft	Personal Symbolic Institutional
Since Start-up	_____	Private Ltd Company	_____	_____	_____	_____	Supplier Credit Bank Overdraft Mortgage	Personal Symbolic Institutional
E - Start-up	1986	Sole Trader	High Street	O &A Levels	Entrepreneur	Personal Savings Kommitti	Bank Overdraft	Personal Symbolic
Since Start-up	_____	Private Ltd Company	_____	_____	_____	_____	Supplier Credit	Personal Institutional

**Table 6.2: Number of family and non-family employees in Pakistani-businesses.**

IMMIGRANT BUSINESSES <u>CASE</u>	FAMILY MEMBERS		NON-FAMILY MEMBERS	
	<u>Start-up</u>	<u>Since Start-up</u>	<u>Start-up</u>	<u>Since Start-up</u>
A	1	2	3	7
B	2	2	0	8
C	1	3	0	5
D	1 (part-time)	2	1	1
E	1	0	0	3
<b>Totals</b>	<b>5 + 1 part-time</b>	<b>9</b>	<b>4</b>	<b>24</b>

The case studies provided the refined hypotheses and thus satisfied the requirement one of the research design (figure 4.2). The refinement of hypotheses was carefully undertaken in response to the case study meetings. The changes made to the hypotheses were in their wording and layout. Their reliability was reconfirmed during the second visit to the respondents. This was then compared and matched across cases (see 5.7) to confirm their generalisability. This process helped in eliminating any bias specific to a particular case or the manner in which an interview may have been conducted.

These refined hypotheses were then used to develop a postal questionnaire administered on both groups. The cases studied were also included in the postal survey to further confirm the reliability of the data gathered during the interviews. This led us to the second stage of the research design where an empirical test of hypotheses was conducted.

The findings of the postal survey are reported in the next section.

## **6.2 Capital Structures of Pakistani-immigrant Businesses (The Survey)**

### **6.2.i Sources of Capital - Start-up stage**

The sources of finance used by the Pakistani small-business owners are divided into two areas: informal and formal sources of finance. The main informal sources included personal savings, wife's savings, other business partners, and the entrepreneurs' parents. In the formal sources of finance a bank overdraft was used by most of the business owners, followed by bank loans. The interesting aspect of the use of formal sources is that only 6 out of 30 businesses had used bank overdrafts and 5 out of 30 businesses had used bank loans. None of the business owners had resorted to leasing or hire purchase, because it was not an available option to them due to their size and lack of financial stability. Only one business owner had used a mortgage on his premises to operate his office down-stairs and reside with his family upstairs. Supplier credit was provided strictly on a cash-only basis at the start-up stage since the businesses were small and unstable. Table 6.3 shows the frequency counts of the businesses using a particular source or combination of the sources of finance:



**Table 6.3: Frequency counts of the main sources of finance - start-up stage**

Sources of Finance	(%) 0 - 10	(%) 11 - 20	(%) 21 - 30	(%) 31 - 40	(%) 41 - 50	(%) 51 - 60	(%) 61 - 70	(%) 71 - 80	(%) 81 - 90	(%) 91 - 100	(%) Non-Used	Total
Bank Loan	-	1 (3)	-	-	1 (3)	1 (3)	-	-	-	-	27 (90)	30
Bank Overdraft	1 (3)	2 (7)	1 (3)	1 (3)	1 (3)	-	-	-	-	-	24 (80)	30
Mortgage	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Leasing / H.P	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Supplier Credit	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Personal saving	-	-	4 (13)	-	6 (20)	4 (13)	1 (3)	3 (10)	1 (3)	6 (20)	05 (16)	30
Wife's Savings	1 (3)	4 (13)	-	1 (3)	2 (7)	-	-	-	-	-	22 (73)	30
Your Parents	-	1 (3)	1 (3)	-	1 (3)	-	-	-	-	-	27 (90)	30
Other members of your family	-	-	-	-	1 (3)	-	-	-	-	-	29 (97)	30
Members of another family / Friends	-	-	-	-	-	-	-	1 (3)	-	-	29 (97)	30
Other Partners	1 (3)	1 (3)	1 (3)	-	1 (3)	-	-	-	-	-	26 (86)	30
Inheritance	-	-	-	-	-	-	-	-	-	-		30
Biraderi/ Kommitti sources	1 (3)	1 (3)	-	2 (7)	1 (3)	2 (7)	1 (3)	-	1 (3)	-	21 (70)	30

Following from the question about the sources of finance used by the business owners a question was posed as to why a particular source was used. The respondents were asked to choose three main reasons for resorting to such a source. Nineteen businesses out of 30 reported that a particular source or a combination of sources was considered as the only source available to them at that stage of the business life-cycle. The second most important reason given was that the ease with which the funds were available was an important factor; 14 out of 30 businesses had given this reason. The third important reason given was the suitable terms on which the amount was available. Table 6.4 outlines frequency counts of these reasons.

**Table 6.4: Frequency counts of the reasons for preferring sources of finance - start-up stage**

<b>Reasons for preference</b>	<b>Preferred Frequency (%)</b>	<b>Totals</b>
Only source available	19 (63)	30
Ease of availability	14 (47)	30
Suitable terms	11 (37)	30
Less information sought	03 (10)	30
No collateral	04 (13)	30
Low cost	03 (10)	30

The answer to the critical question of how much finance was needed to set up the business and how much of it was received from a particular source was difficult to extract from the business owners. As reported earlier in chapter five the researcher faced great difficulty in obtaining such information. Two different questions were asked of the respondents in order to ascertain the total amount needed to start-up the business. The first question asked the amount of debt that they had borrowed. Nine out of 30 businesses had no debt at the start-up stage. Seven businesses out of 30 had borrowed between £5,000 and £9,999. The rest of the 14 businesses varied significantly in their borrowing behaviour; the smallest borrowed amount was £1,000 - £4,999 and the highest borrowed amount was £40,000 or above. The borrowed amount in the majority of cases was used as working capital. The three businesses which had borrowed more than £40,000 had used the money to fill the insurance / security bond for International Air Transport Association (IATA) approval, for the purchase of the business, for upgrading their office premises and the purchase of computers, fax machines and other office equipment. Table 6.5 shows the amounts borrowed as debt by the number of businesses.

**Table 6.5: Frequency counts of debt - start-up stage**

<b>Amount of Debt (£)</b>	<b>Frequency (Cases)</b>	<b>Percentage %</b>
No debt	9	30
1 - 4,999	2	07
5,000 - 9,999	7	23
10,000 - 14,999	3	10
15,000 - 19,999	4	13
20,000 - 24,999	1	03
25,000 - 29,999	1	03
30,000 - 34,999	-	-
35,000 - 39,999	-	-
40,000 or above	3	10
<b>TOTALS</b>	<b>30</b>	<b>100</b>

Informal sources of finance were approached first to obtain the start-up capital, followed by formal sources. Informal sources included personal savings, wife's savings, members of the entrepreneur's family, and members of other families. The high street banks were the first point of contact as a formal source for the provision of the start-up capital. Nineteen cases reported that collateral was required when borrowing capital. The most common form was fixed collateral, i.e. property.

The second question pertaining to the required start-up capital was inevitably the amount of the entrepreneur's own capital invested in the business. Thirteen businesses reported that they had invested between £1,000 and £9,999 as their own equity in the business which was raised from the informal sources. The highest amount invested was £40,000 or above; this again was used either to purchase the business or to upgrade the office premises. Table 6.6 outlines the frequency counts of the amounts of equity at the start-up stage.



**Table 6.6: Frequency counts of equity - start-up stage**

<b>Amount of Equity invested (£)</b>	<b>Frequency (Cases)</b>	<b>Percentage %</b>
1 - 4,999	11	37
5,000 - 9,999	13	43
10,000 - 14,999	1	03
15,000 - 19,999	3	10
20,000 - 24,999	1	03
25,000 - 29,999	-	-
30,000 - 34,999	-	-
35,000 - 39,999	-	-
40,000 or above	1	03
<b>Totals</b>	<b>30</b>	<b>100</b>

The average total capital raised to invest in the business at this stage was £20,000, taking into account capital raised through debt as well as cash. The respondents were also asked if they had faced any problems in raising the total finance (debt/equity). The most frequently reported reason was the lack of security for raising the loan, followed by mistrust or prejudice, and the lack of a track record in business.

### **6.2.ii Sources of Capital - Since Start-up**

Business owners were asked about the capital structure of their businesses since the start-up stage. All 30 businesses reported that the capital structure of their business was made up of formal and informal sources of finance. Twenty-five out of 30 businesses reported that they had used supplier credit as a main source of business finance. Nine businesses out of these 25 had used supplier credit for up to 50 percent of the post start-up required capital. Six businesses had used this source for up to 100 percent for their financial

requirements. The rest of the 10 businesses had used this source for between 10 percent and 90 percent of the financial needs of their business.

Nine out of the 30 businesses had used bank loans to satisfy between 10 percent and 60 percent of their capital needs. Seven out of 30 had resorted to bank overdrafts for 10 percent to 70 percent of their financial needs. Another important source that helped the cash flow of the businesses was customers' payments, received either in advance or on issuing the tickets. This amount provided up to 6 weeks, working capital for the businesses and at the end of that period the sums were transferred to the International Air Transport Association (IATA) bank accounts, under the Bank Settlement Plan (BSP) scheme (also see 7.6). Although the travel agents were not supposed to be using these sums for working capital, nevertheless in all the cases this was an established practice. Since the BSP system was designed and regulated by the IATA it is treated as supplier credit in our analysis.

Among informal sources the personal savings of the business owner had decreased from 27 to only 7 cases reporting that they used their own personal savings to satisfy between 10 percent and 80 percent of the post - start-up stage capital requirements of their businesses. The use of business owner's wife's savings had also fallen from 13 cases to only 5 cases using it for between 10 percent and 50 percent of the financial needs of their businesses. Table 6.7 shows the frequency count of the main sources of finance used after the start-up stage of the businesses.

**Table 6.7: Frequency counts of main sources of finance - since start-up stage**

Sources of Finance	(%) 0 - 10	(%) 11 - 20	(%) 21 - 30	(%) 31 - 40	(%) 41 - 50	(%) 51 - 60	(%) 61 - 70	(%) 71 - 80	(%) 81 - 90	(%) 91 - 100	(%) Non- Used	Total
Bank Loan	1 (3)	1 (3)	-	2 (7)	5 (17)	1 (3)	-	-	-	-	20 (67)	30
Bank Overdraft	1 (3)	-	-	2 (7)	3 (10)	-	1 (3)	-	-	-	23 (77)	30
Mortgage	-	-	-	-	1 (3)	-	-	-	-	-	29 (97)	30
Leasing / H P	-	1 (3)	-	-	-	-	-	-	-	-	29 (97)	30
Supplier Credit	1 (3)	1 (3)	1 (3)	2 (7)	3 (10)	2 (7)	2 (7)	3 (10)	1 (3)	12 (40)	2 (7)	30
Personal saving	1 (3)	1 (3)	2 (7)	2 (7)	1 (3)	-	-	1 (3)	-	-	22 (73)	30
Wife's Savings	2 (7)	-	1 (3)	-	1 (3)	-	-	-	-	-	26 (87)	30
Your Parents	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Other members of your family	-	-	1 (3)	-	-	-	-	-	-	-	29 (97)	30
Members of another family / Friends	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Other Partners	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Inheritance	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Biraders/ Kommiti	-	1 (3)	-	1 (3)	-	-	-	-	-	-	28 (94)	30

To compare between the two stages of the business, start-up and post start-up stage, the respondents were asked to rank three most important reasons for choosing a particular source or a combination of sources. Twenty-one out of 30 businesses chose a particular source of finance due to its ease of availability. The other nine businesses reported that it allowed them suitable terms, low cost, and that less information was sought by such sources. Table 6.8 outlines these reasons.

**Table 6.8: Frequency counts of the preferred sources of finance since start-up stage**

Reasons for preference	Preferred Frequency (%)	Totals
Only source available	14 (47)	30
Ease of availability	21 (70)	30
Suitable terms	02 (07)	30
Less information sought	04 (13)	30
No collateral	02 (07)	30
Low cost	03 (09)	30



In order to evaluate the amount of capital invested since the start-up stage two further questions were asked. The critical question is how much debt had been borrowed at this stage of the business and how much equity was invested in the business. Thirteen out of 30 businesses had not resorted to any debt at this stage of the business. Five businesses had borrowed between £10,000 and £14,999. Four businesses had borrowed £40,000 or more. Table 6.9 outlines the frequency count of the amounts borrowed as debt since start-up.

**Table 6.9: Frequency counts of debt - since start-up stage**

<b>Amount of Debt (£)</b>	<b>Frequency (Cases)</b>	<b>Percentage %</b>
No Debt	13	43
1 - 4,999	3	10
5,000 - 9,999	5	17
10,000 - 14,999	1	03
15,000 - 19,999	1	03
20,000 - 24,999	2	07
25,000 - 29,999	1	03
30,000 - 34,999	-	-
35,000 - 39,999	-	-
40,000 or above	4	13
<b>Total</b>	<b>30</b>	<b>100</b>

The respondents were asked to rank their preferred sources of finance when seeking capital to invest in their businesses. The high street banks were rated first by 14 out of 30 cases, followed by personal savings and wife's savings. When raising capital through these sources the question of required collateral requirements was raised. Fixed collateral was reported to be the most sought-after form of collateral by the high street banks.

The respondents were also asked if they had faced any problems in obtaining the required amounts of capital. An equal number said that they had faced problems as opposed to those who had not faced any problems, 15 cases in each category. Among the most commonly faced problems were insufficient documentation, mistrust or prejudice, and lack of track record in business. Respondents felt that the banks were too rigid in insisting on a business plan. They did not know how to prepare one, and had to seek help from their accountants, who needed to be paid sums which the business owner did not have. On the submission of the business plan the bank officials wanted further explanation there and then which the entrepreneur found very hard to give since he did not have any financial knowledge. According to the entrepreneurs, the bankers held this against them because they felt that a person who does not have financial awareness may not be capable of running a successful business.

The second critical question related to the amount of equity invested in the business by the business owners. Eighteen cases reported that they had invested no further personal equity in the business, after start-up. The other eight cases reported that they had invested between £1,000 and £4,999 as their personal savings in the business. The remaining four cases had invested between £5,000 and £10,000. Table 6.10 outlines the frequency counts of the amounts invested as equity.

**Table 6.10: Frequency counts of equity - after start-up**

<b>Amount of Equity Invested (£)</b>	<b>Frequency (Cases)</b>	<b>Percentage %</b>
No Additional Equity	18	60
1 - 4,999	8	27
5,000 - 9,999	2	07
10,000 - 14,999	2	07
<b>Total</b>	<b>30</b>	<b>100</b>

The average total capital invested since the start-up stage of the business amounted up to £15,000 raised through debt and equity.

### **6.3 Family Contribution to Finance and the Role of the Community**

The literature outlined in chapters two and three indicated significant involvement of the family in financial and social support for the business. The research reveals that the family did not play any significant role in the day-to-day operations of the businesses. On average 1.6 percent family members were employed, excluding the business owner, by these businesses, compared with 3.5 percent non-family employees. Family employees played more of a supervisory role, as the driving force behind the business. In most cases the respondents questioned their competence although their education was equivalent to 'O' and 'A' levels in 23 cases and bachelor's degree in 7 cases. Apart from the entrepreneur himself being technically trained as a travel agent, the other family members carried out the less technical and less important tasks of the business. Such tasks were simple activities like ensuring the daily post was sent out, that tickets were delivered, going to the bank for daily deposits and withdrawals, and opening and closing of the premises and such activities. According to the respondents the family members were



useful at the start-up stage of the business, but once the business had become stable and began to grow family members were seen as a hindrance to further growth. The jobs secured by the family members were either paid higher than they deserved or could have been shared among the other non-family employees. Thus their salaries were a financial drain for the business.

This aspect of the findings contrasts with the widely accepted school of thought (Ram and Holiday 1992; Wilson 1987; Aldrich 1986; Nowikowski 1984; Werbner 1984) that immigrant business owners' families offer loyal, trustworthy, cheap and even in certain cases unpaid labour to work hard over long hours to support the business. Our contention here is that the existing research findings may be acceptable in case of the Confectionery, Tobacco and Newsagents (CTN) trade. In certain specialised areas, for example a travel agent, command of English, ability to use the computerised systems, technical knowledge required to provide a particular service and IATA qualifications restrict and even in some cases make it impossible for a family member to be actively involved in the business.

However, according to the findings of this research, in line with the existing literature (see table 2.4), the members of the immediate and extended family played an important role in mobilising the community to purchase the services offered by the business. This may be interpreted as family provision of conditions in which a business can survive through the initial stages of business start-up. However, once the business had started to grow such methods were less important since the businesses would begin to target the wider market place and not only their own community members. Fourteen out of 30

cases had 1 family member employed, 10 had 2 family members employed, and 3 businesses had three family members in the business. One had 4 members of his family working in the business. The owners of businesses were also asked about the number of non-family employees. Fifteen businesses reported having between 1 and 3 non-family employees and 11 businesses reported between 4 and 13 non-family employees. The other 4 businesses had no non-family employee working in the business. The main reasons given for hiring non-family employees included the fact that their qualifications helped to obtain an IATA license for the business, and their ethnic background and ability to bring customers with their social contacts. Table 6.11 outlines the number of family and non-family employees per business with an overall average of each category.

**Table 6.11: Number of family and non-family employee per case Pakistani-businesses**

No. of Business	Family Employee	Non-Family Employee	Total Employee per Business
1	1	1	2
2	0	3	3
3	1	0	1
4	2	0	2
5	1	2	3
6	2	3	5
7	1	8	9
8	1	0	1
9	2	1	3
10	3	1	4
11	2	1	3
12	2	6	8
13	3	13	16
14	0	7	7
15	1	0	1
16	4	2	6
17	2	6	8
18	1	3	4
19	2	4	6
20	2	8	10
21	2	10	12
22	1	3	4
23	1	2	3
24	1	3	4
25	3	1	4
26	1	4	5
27	1	3	4
28	1	2	3
29	2	5	7
30	1	8	9
<b>Total</b>	<b>47</b>	<b>110</b>	<b>157</b>
<b>Average</b>	<b>1.59</b>	<b>3.52</b>	<b>5.1</b>

The literature review showed that the community/*biraderi* plays a significant role in mobilising resources for new businesses. In our study this support was provided in the shape of the community being the only customer, introducing the business by word of mouth to other community members. The obvious preference by the community members of these businesses was their ability to communicate in their own language and



to do business based on relationships and expectations in the community. All businesses reported that up to 97 percent of their revenues were earned from Pakistani customers travelling to Pakistan and this contributed the same percentage of the total turnover of the business. Very little business if at all was done with other than immigrant customers. Thus, overall the business served the immigrant enclave economy.

#### 6.4 Financial Networks Typology

Three distinct sets of patterns emerged which are in line with current thinking on immigrant communities mobilising their resources to support their own community businesses. The information was categorised under three headings found in the literature review on networks. A framework using a combination of Johannisson's (1987) and Arocena's (1984) definitions was used here to categorise the responses. The first category was "Personal networks" which included informal sources of financing, including the entrepreneur himself and his immediate family's financial and social support. The second category was of "Symbolic networks" formed by bonds based on community ties and conformity to collective values. This included the acquaintances, friends, and the institution of *biraderi*. The final category was of "institutional networks", understood as banks and financial companies, national and local grants to business.

Personal Networks (PN) = Personal Savings (P) + Wife's Savings (W) + Parents (Pa) + Other Members of the Family (OF) + Family Inheritance (I)  

$$PN = P + W + Pa + OF + I$$

Symbolic Networks (SN) = Members of another Family / Friends (AF) + Other Partner (Op) + *Biraderi* / Community sources (Bi) + *Kommitti* / Savings Club (K)  

$$SN = AF + Op + Bi + K$$

$$\begin{aligned} \text{Institutional Networks (IN)} &= \text{Bank Loan (L)} + \text{Bank Overdraft (O)} + \text{Mortgage (M)} + \text{Leasing / Hire} \\ &\quad \text{Purchase (H)} + \text{Supplier Credit (S)} \\ \text{IN} &= \text{L} + \text{O} + \text{M} + \text{H} + \text{S} \end{aligned}$$

This research provides empirical evidence that at the start-up stage of the business personal networks play an important role in financing business, and as businesses pass to growth and maturity the symbolic networks followed by the institutional networks play an important role. All businesses on average raised 56.7% of their total capital through personal networks. Taking into an account that the average capital required to start-up the business was £20,000 the sums raised through personal networks were 56.7% (£11,400), 26.7% (£5,200) was through symbolic networks, and the remaining 16.7%, (£3,400) was raised through the institutional networks.

**Table 6.12: Percentage of total capital raised through various networks at start-up**

PN	=	P	+	W	+	Pa	+	Of	+	I		
		20	+	13	+	3	+	3	+	0	=	39%
n	=	6	+	4	+	1	+	1	+	0	=	12
												£12,581.00
SN	=	AF	+	Op	+	Bi	+	K				
		3	+	3	+	7	+	0			=	13%
n	=	1	+	1	+	2	+	0			=	4
												£4,193.00
IN	=	L	+	O	+	M	+	H	+	S		
		3	+	7	+	0	+	0	+	0	=	10%
n	=	1	+	2	+	0	+	0	+	0	=	3
												£3,226.00
Total capital invested at start-up												<u>£20,000.00</u>

The reported n is based on the respondent businesses; the non-respondents are not included in the table.

Once the business had moved beyond start-up into the growth stage, the role of personal and symbolic networks in the provision of the capital was taken over by the institutional networks. A significant change occurred in the capital requirements at start-up and after

start-up. After start-up the required capital decreased to an average of £15,000, because the businesses were able to sustain themselves and the cash flow were helping to provide the working capital required. Supplier credit also played a significant role in post start-up financing. After the start-up stage 17% (£2,550) of the required capital was raised through personal networks which was a significant decrease from the amounts raised in this way at start-up. The role of symbolic network also decreased and only 6.6% (£900) of the required capital was raised through this network. However, the role of institutional networks had increased significantly to 77% (£11,550) of the required total capital.

**Table 6.13: Percentage of total capital raised through various networks since start-up**

PN	=	P	+	W	+	Pa	+	Of	+	I		
		6.7	+	6.7	+	0	+	3.3	+	0	=	17%
n	=	2	+	2	+	0	+	1	+	0	=	5
												£2,602.00
SN	=	AF	+	Op	+	Bi	+	K				
		0	+	0	+	3.3	+	3.3			=	6.6%
n	=	0	+	0	+	1	+	1			=	2
												£1,071.00
IN	=	L	+	O	+	M	+	H	+	S		
		17	+	10	+	3.3	+	3.3	+	40	=	74%
n	=	5	+	3	+	1	+	1	+	12	=	22
												£11,327.00
Total capital invested since start-up											=	<u>£15,000.00</u>

The reported n is based on the respondent businesses; the non-respondents are not included in the table.

## 6.5 Supplier Credit

Trade credit is an important source for intermediate purchasers of goods and services (Emery 1984). The literature on trade credit as it pertains specifically to small business is relatively sparse. Trade credit is often easier to arrange than bank loans for small



businesses. Trade credit is extended on a continuing basis to small firms with very little paperwork and at a low cost. Typically, trade credit is extended at no cost to the recipient firm for the first 30 or 60 days (Walker 1985). Werbner (1984, 1990) demonstrates that credit arrangements within the Asian clothing network are highly liberal and ethnic-preferential. She quotes a Manchester Pakistani wholesaler to the effect that “Asian traders expect credit as a right” (Werbner 1984). According to Deakins et al (1992), “trade credit remains an important source of short-term finance”. Jones et al (1994) reported that “Asian manufacturers cited their own personal savings as their principal or sole source; in practice this is frequently matched or exceeded by supplier credit”. Admittedly, they fail to quantify this exhaustively. There is little knowledge on the role played by supplier credit in the formation of small business capital structures.

This research discovered that supplier credit plays a more important role after the start-up stage of the business and is a source of short-term finance used regularly. Of all the firms surveyed in this category, 16 firms (53.3%) conducted business on a cash in advance basis. Twenty-two firms were required to pay cash on delivery, and three firms had an advance rolling deposit arrangement.

**Table 6.14a: Supplier credit at start-up stage: Methods of payment available to Pakistani-businesses**

<b>Methods of Payment</b>	<b>Available Frequency (%)</b>	<b>Totals</b>
Cash in advance	16 (53)	30
Cash on delivery	22 (73)	30
Advance rolling deposit	03 (10)	30

**Table 6.14b: Supplier credit period at start-up stage**

<b>Number of weeks credit received</b>	<b>Frequency (%)</b>
0	24
2-4	5
6	1
Totals	30

The above trade credit terms were strictly adhered to; only 6 firms had a credit facility, out of which 5 firms had between 2 - 4 weeks credit and 1 firm had 6 weeks credit. The reason for not being able to receive trade credit at this stage of the business life-cycle was related to the fact that these businesses were not IATA approved and were referred to as “bucket shops” in the trade. This reflected their instability in business and poor credit worthiness as perceived by the IATA approved agent. The IATA approved agents were also not happy to allow others to enter the market, but nevertheless sold tickets through them since these (bucket shop) operators were their main contact between immigrant customers and themselves.

However, as the firms moved from start-up to growth the availability of supplier credit was eased. An interesting phenomena to note here is the manner in which supplier credit was received is not conventional. The respondents explained the “Bank Settlement Plan” (BSP) system. The BSP system simplifies the selling, reporting and remitting procedures of IATA Accredited passenger sales agents. BSP uses the electronic data processing centres to compute billings and amounts which agents remit to the appointed clearing banks, and the division of these amounts by the bank for settlement amongst airlines. Under the BSP system all ticket sales are made on credit. This means supplier credit for

the travel agent from the airline. A travel agent is not required to pay for the sales he has made until the 17th day of the month following sale which is the time when the direct debit for the amount outstanding will be lodged and taken from the travel agency bank account.

Therefore the travel agent has on average four weeks credit. It was reported by the travel agents that the sums earned from sales were used as working capital. Some sales were rolled forward for the next six-weekly BSP submission date. All respondents were very clear on how they managed their BSP transfers since failure could result in them losing their IATA approval licence. The respondents also used these sums to invest in high-interest bank deposit accounts over shorter periods of time, even weekends only. They transferred sums from their current accounts to high-interest deposit accounts and on Monday reversed the transfer arrangement back to their current accounts. It was also reported that due to this and the BSP facility they hardly ever resorted to any other short term finance unless it was required to upgrade the business. Though they were granted the overdraft facility by their bank often it was not used.

This is an unusual form of supplier credit, specific to the travel trade and thus it limits the generalisability of our findings to small businesses in other industries.

## **6.6 Summary**

The aim of this chapter was to report on the data collected from the fieldwork. A two-stage research design was used to collect the data. The data gathered from both stages -



case study and postal survey - is reported here. The main sources of start-up and post start-up finance were discussed together with the role played by the family and the community in mobilising support for the Pakistani-immigrant-owned businesses.

The capital structure of Pakistani-immigrant businesses involved informal and formal sources of finance. Among the informal sources, the personal savings of the business owner, his wife's savings, the *kommitti*, parents, other members of the family and friends were the most widely used sources of start-up capital. The formal sources of finance at the start-up stage included the bank overdraft, bank loan, mortgage, and other business partners. The total start-up capital required, on average, was £20,000; 83.3% of this was raised through informal sources and only 16.7% was raised through formal sources of finance. These businesses were not reported, by their owners, to be disadvantaged by the banks in seeking funds. However, the business owners themselves preferred informal sources over formal sources due to their lower cost. The banks wanted business plans and fixed monthly payments, whereas the informal sources were interest-free and the repayment terms were mutually agreed by the lender and the business owner.

At the growth and maturity stages supplier credit, supplied by IATA BSP, was used regularly to fund working capital. At the growth stage the main sources used were supplier credit, bank overdraft, bank loan, and mortgage. The informal sources used included personal savings, wife's savings, and other family members. At the maturity stage the only source of capital used was supplier credit.

The business owners preferred personal equity to debt, and then external equity as a last resort. Debt was avoided due to its high cost in terms of time and the documentation required to present to the bank. External equity was least preferred in order to avoid dilution of interest, and loss of managerial control and entrepreneurial freedom. The overall finance behaviour was in order with the Pecking Order Hypothesis.

The *biraderi* also played a role in mobilising support for the community owned businesses. Members of the *biraderi* recommended the business for travel, *haj* and freight arrangements. The women in the community organised a form of ROSCA called *kommitti* which operated like a savings club. The savings were used either to run the household or were given to the husband as the initial capital for business start-up.

The family did not contribute much to the day-to-day operations of the business. There were fewer family members than non-family members working in the business. The reasons for employing more non-family members were two-fold. Firstly, the lack of technical knowledge required in a travel agency operation meant that a family member had to be trained and it was easier to recruit a trained non-family employee. Secondly, the business was carried out on word of mouth basis, which meant the larger the personal, social, and institutional network, the greater number of customers the business was able to attract. The family members that were employed performed casual duties.

The next chapter reports on the empirical findings concerning the capital structures of indigenous-owned small businesses.

## **Chapter 7**

### **The Capital Structures of Indigenous Small Businesses**

#### **7.0 Introduction**

The focus of this chapter is on the capital structures of indigenous-owned small businesses. The empirical findings of case study and postal survey are reported here. The finance behaviour of these businesses at different stages of the life-cycle, the use of informal and formal sources of finance, and the role of family and community networks are explored and discussed. The chapter is divided into six sections. Section one outlines the cases studied, and highlights the capital structure of each case. Section two deals with the postal survey data and outlines the main sources of finance at start-up and post start-up stage. The contributions made by the family and the role of the community in mobilising support for the success of the business are reported in section three. The different types of network typologies are outlined in section four. The fifth section deals with the role played by supplier credit in providing finance. The sixth section concludes the chapter.

#### **7.1 Capital Structures of Indigenous Businesses (The Case Studies)**

##### **Case A**

William started his travel agency business in 1985. His reasons were the need for independence and the challenge. He was at university and used to assist people by directing them where to get reasonably priced tickets. He studied archaeology and had



been a keen traveller to remote parts of Asia and Africa. As a result he has a good understanding of the cultures of these countries. The business is owned by himself, his wife and a business partner. There are three non-family employees in the business.

At the start-up stage of the business he and his partner raised finance through personal savings. The money raised through this method was used to advertise the business, and to purchase the office furniture and equipment. He used the front of his house as an office. The house was mortgaged and the business paid half of his mortgage. William, his wife and his son live in the house, while the partner lives away. Since William was experienced in this business and had established contacts with the suppliers, he did not find it difficult to launch the business. His personal and social network of fellow students at the university and the university staff were his customers. His partner, a barrister by profession, took care of the administration, while William did the buying and selling. His partner also used his networks to spread the word about his business services. He also advertised in magazines. William visited two high street banks to apply for a business loan but was discouraged by the amount of form-filling required by the banks.

“Here I was busy to push my business and the bank wanted me to fill lots of forms, financial projections from my accountant, trade references and such rubbish. I decided to stop wasting my time and in the end I even did not ask for any overdraft facility.”

“All of the business was conducted on a cash-in-advance basis. No one allowed me any credit and I also did not offer any credit. I offered very good personal service and competitive prices.”

“Since starting the business I have had no problem with financing. I have been very careful with my cash flow. The supplier credit helps me to run the business. I am in close touch with my accountant to keep a strict

financial control. In addition, this house is worth quite a bit and when I was applying for my ATOL (Air Travel Operators Licence) I used it as a guarantee for £50,000 instead of going through the bank. Now we do not use our savings in the business any more.....”

After four years in business William faced major problems with his partner who had not been keeping the records under control. The result of this was that they decided to part. William raised a loan from the bank to buy him out. At present William’s wife keeps the business records. They have employed three other non-family members.

### **Capital Structure**

William used his personal savings together with his partner’s savings to start the business. His house was used as an office and a part of the mortgage was paid by the business and the remaining part by him and his wife. His wife is a partner in the business. Having his office in his house meant that he did not have to generate a double income to cover his personal mortgage as well as the rent and rates for commercial premises.

After the business start-up he kept a tight rein on the financial side of the business and worked closely with his accountant. This way he managed to utilise the generated profits as working capital and for future investment and guarantees against licences for IATA and ATOL. The tight financial management has kept his business successful. He still practices the same strict financial discipline.

The finance behaviour adopted by William was not one of anti-debt. He in fact wanted to obtain a loan from the bank, but decided against it on the basis that it was too time-consuming. The bank gave William the impression that they did not understand the needs of his business.

“I was not prepared to go on to train the loan officer about what my business was and then for them to say yes or no. Instead I decided to use my own savings.”

The finance behaviour adopted involved his own equity, then external equity and finally debt.

### **Role of Family**

In the business his wife is the only family employee, as an office manageress. He has never involved any other family member in the business. There are three non-family member employees in the business. William believes in hiring people from the market at market rates and expects them to work as employees do.

“Family can distract you from your business aims. There is a danger that you can get tangled in the emotions of the family and make decisions which are in the interest of the family, but not necessarily in the interest of the business. I have built this business strictly adhering to the business philosophy.”

### **Business Economy and Networks**

Ninety percent of William’s customers are indigenous people making visits to Asia and Africa. The remaining 10% are immigrant customers, the majority Asians. He serves professionals, like solicitors, accountants and doctors who visit Pakistan, Uganda, Kenya,



India, and Sri Lanka. One of the reasons why he is successful in business is that he is a sociable person with extensive personal and social networks, not only in this country but abroad.

“When I visit abroad on business I always find someone there who is known to me and spend time with them, which makes life a lot easier in a foreign land. I have visited Pakistan on a number of occasions and have some close friends there.”

### **Case B**

Michael started his travel business in 1987. After leaving school with GCE ‘O’ levels he started as a messenger boy in an architect’s office in central London. He has been an insurance sales executive, an office manager for a courier company and a hotel hospitality executive. After working for a number of years in the hotel industry he wanted to set up his own business. He had the technical knowledge from his previous job of making travel arrangements. He also had contacts in travel agencies and airline offices.

He started his business with £15000. Over the years he had saved £9000. He borrowed £4000 from his wife and £2000 from his brother-in-law.

“I did not go to the bank for a loan since I knew that the bank would ask for collateral which I did not have, so it would have been waste of time. Instead I used my own money.”

“I started the business with one part-time staff; today I have 10 employees including my wife and her sister.”

Michael advertised his business in the local press as well as in the national weekend press to attract customers. The hotel where he used to work also appointed him as their official travel agent. He started getting business, some people buying tickets on short haul flights to Europe and others re-confirming flight arrangements. Then he moved into selling long haul flights to the Far East and Australia. He also specialised in weekend breaks in Ireland and business trips to the USA. Around 60% percent of his customers are of indigenous origin and the remaining are immigrants from Turkey, Pakistan, Cyprus and India.

When the business started doing well he organised a holiday trip for his brother-in-law because he had lent him money; later on he returned the money. His sister in law now works with him in the business.

Since starting the business he had to raise further funds in order to obtain his IATA licence and upgrade his business with computers, software and further telephone lines. He raised a loan of £20,000 from the bank against his house as collateral.

“My business had money in it so I went to the bank and they lent me the money. I upgraded the business and launched an aggressive advertising campaign to improve the business and increase its turnover. Within two years the turnover shot up from around £70,000 to over £2 million.”

“No-body allowed me any credit so I did not allow any credit either, but offered very competitive prices.”

“I also used the profits made in the business quite a lot on various occasions. More recently I have been awarded an ATOL licence number primarily on the basis that my company is financially sound.”

## Capital Structure

Michael started the business with his personal savings and did not resort to a bank loan or an overdraft. His wife had also lent him money. Since starting the business Michael has used supplier credit frequently and this has given him financial security. After being in business he has raised a bank loan without any problem and used it effectively to improve the business. He prefers equity to debt and debt to external equity. His view is that

“why start a business if you cannot be your own boss? I started this business for my freedom of work and as a challenge. If I had wanted to share it I could have stayed in the hotel industry. No, I am happy on my own - no partners.”

Michael also prefers to use his internal sources of finance than to borrow from the bank.

“Banks make money out of lending to businesses like me, they don't care what we do as long as they are charging high interest rates and are getting bigger. I control my finances well and if I can use my profits I would rather do that and make more money by saving the interest charges and all the other charges that the bank just uses as an excuse to make money out of small businesses like me.”

Sources	Amounts (£)	Percentage (%)
<b>Informal</b>		
Personal Savings	9000	60
Wife's Savings	4000	26
Member of another Family	<u>2000</u>	<u>14</u>
<b>Total</b>	<b><u>15000</u></b>	<b><u>100</u></b>

## Role of Family

Michael's wife has played an important role in not only providing finance for the business but also by working in the business. She looks after the book keeping and financial



records. This has meant that Michael is never away from the financial pulse of the business. His sister-in-law looks after the administration aspects. Michael is content that his wife and her sister control the day-to-day operations of the business, leaving him to concentrate on the growth of the business.

### **Business Economy and Networks**

The majority of his customers are indigenous. They come to him for business travel, holidays or weekend breaks. His wife's friends from her previous place of work are also their customers. Her sister has worked for the Department of Social Security and her extensive network in that office also brings in business. Their eight employees get some business on a referral basis and advertising also brings in business.

Michael is a member of the local chamber of commerce and participates in events organised for the local community. He is also a member of the local Rotary club and has been appointed as their official travel agent.

### **Case C**

Gerry started his business in 1988. Prior to entering the business he worked in the local council offices, at the British Gas showroom as an appliances consultant, and later at the local hi-fi shop as an assistant manager. In his last job he worked for one of the local medium sized travel agents and tour operators as an assistant manager. He had attended the required courses and had been making travel arrangements for a few years. He felt he could operate his own business successfully.

He looked for premises on the high street and found a shop that he felt would be right for his business:

“wide front window, a basement, and some area at the back, and if I wanted to expand in future I could take the first floor as well .... I knew the image in travel business is very important, so I wanted to launch my business at the right place with the right image.”

He spent money upgrading the shop, installing telephone lines and a few computer terminals. He purchased some second-hand but modern furniture. One of his friends from school was working for the local free paper and gave his business a big editorial and advertisement space at the launch of the business at a competitive rate. His friends and members of his family also recommended his business wherever they could.

The business is owned by himself, his wife, and a cousin. It was set up with a capital of £15,000. This was raised from both informal and formal sources. The informal sources included the personal savings of Gerry, his wife, and his cousin. The formal sources included a bank loan.

“When I decided to set up the business I thought of raising the finance and had only £4500 which I could afford to invest in the business. I asked my wife and she could invest £1500. I decided to go to the bank and apply for a loan .... they were willing but wanted collateral; both I and my wife discussed it and decided to put our house as a security against a loan of £7500. I asked my cousin who is also very close to my family and he decided to invest £1500 in this business.”

Soon after launching the business he joined the Association of British Travel Agents (ABTA) and later on was also successful in obtaining a licence from IATA. This put his business on a good footing for expansion and growth. Initially, he bought tickets from

other IATA approved agents on a cash basis and also sold on cash basis. The IATA approval meant that he had better control over his business and credit terms of six weeks. He has also been successful in obtaining an ATOL licence. Nearly all of his customers are of indigenous background though occasionally he does business with immigrants. He puts it down to the way the business is: "If people come in for a service we do not choose who to serve or not; it is all business for us." He estimates that approximately 10% of his customers travel to Pakistan, some on canoeing trips in the northern parts of Pakistan, some on holidays, some on business, and others to visit their relatives.

Since the start-up stage the business has been financed by supplier credit with the exception of one particular occasion. A bank loan of £5000 was raised to improve facilities in the business and to carry out further expansion on the first floor of the existing premises. For this loan no collateral was required. After start-up Gerry used supplier credit primarily due to its ease of availability and its low cost to the business.

"It is obvious there is no paperwork involved, no meetings with the bank manager, and I can use it as much as I want .... but I have to be very careful when the IATA repayment date comes - I must have the money to pay or else I lose my licence."

During the first few years Gerry, his wife and a secretary worked in the business. As the business expanded his cousin joined the business and then some more full-time staff. Now Gerry's elder son has joined the business, making four family-member employees, and a total of seventeen non-family member employees.



“If you have too many family members working in the business it is always inward-looking and you never get to know more and more people. In the past I have employed people from outside the family who have brought in business and when they leave some of their contacts have stayed with me. Some go with them, but then I get a new employee and new customers as well .... but I do not worry much about it - my main customers are loyal to me because I provide good service to them and in return they recommend more customers to me.”

### Capital Structure

Gerry started his business with a capital of £15000 raised through the following sources:

Sources	Amounts (£)	Percentage (%)
<b>Informal</b>		
Personal Savings	4500	30
Wife's savings	1500	10
Other Family members	1500	10
<b>Formal</b>		
Bank Loan	<u>7500</u>	<u>50</u>
<b>Total</b>	<b><u>15,000</u></b>	<b><u>100</u></b>

The finance behaviour adopted by Gerry shows that he invested equity through his and his wife's savings and then debt through the bank loan and then external equity from his cousin. The pattern is in line with the Pecking Order Hypothesis that equity is preferred to debt and debt is preferred to external equity.

After start-up the business had been funded by supplier credit and a bank loan. Since then he has raised another £20,000 through supplier credit to further invest in the business. Also, he raised a bank loan £5000, when he did not have any money because the IATA repayment date was near and he did not want to risk using the money and then

having to raise it to pay to IATA. Instead he decided to apply for the bank loan and was successful.

### **Role of Family**

Gerry believes that his family has been supportive. Part of the start-up capital was provided by his wife and part by his cousin. At present his son is working in the business. Apart from that there is no family involvement in the business.

### **Business Economy and Networks**

Gerry deals mainly with indigenous customers. His personal and social network is not very wide. He has some friends and old colleagues from where he has worked who come to him for their travel requirements. He does not depend much on referral business.

### **Case D**

After leaving school Victor was recruited by a holiday company in Manchester. After a few years of working for the company he decided to look for a job in London with one of the other companies in the industry. He progressed through the hierarchy of the company from records officer to the position of a holiday booking consultant. As part of his job he travelled extensively in Africa, Asia, and Europe and has been familiar with various cultures. After a few years of working in a big company he was made redundant when the company merged with another company. He received some money as compensation. He felt bitter as he had worked hard over the years and there was no place for him under the new structure. The thought of something like this happening to him again at a later

stage in his life put him off the idea of looking for another job. Instead, he took a short holiday abroad and on his return started to look around for premises to start a travel agency business. At the time he was living in North London and decided to look for premises locally rather than having to travel to the centre of London every day. He found a shop premises on the high street which he was happy with and decided to enter into negotiations and he started to enquire about the possibilities of taking a bank loan. In his previous job he had learnt about putting forward plans for holidays and doing cost analysis and setting prices. His knowledge of financial management was useful in understanding the bank's business plan forms. After an interview with the lending officer at the bank he was successful in obtaining a loan.

“I started in 1991 with a capital of £25000, £10,000 of mine and the rest from the bank. The bank wanted collateral and I agreed that they could have my flat as collateral.”

He is the sole owner of the business and has raised money through his personal savings, redundancy money and bank loan. He started off the business with a lot of local trade from people living and working in the vicinity. He employed a sales girl and both of them worked side-by-side to ensure that they were able to cover the expenses. After two years of business he decided to join ABTA which gave him further confidence in selling his business services. Being in business for two years as well as his previous experience in the industry allowed him to negotiate a two-week credit period from the travel agents who were his suppliers and after two weeks he could only buy further tickets from them if his account was cleared. He used three main suppliers and rotated his delivery payments



among them for various routes. So far he has managed to operate successfully in this manner. He does not extend credit to his customers.

Since business start-up he has not invested any further sums in the business. He uses supplier credit in the business from time to time to ease his cash flow and when the cash flow improves he put funds aside for use at a later stage. His fixed costs have remained the same. He has all in all three non-family member employees and no family-member works in the business. He is single and manages his business affairs on his own.

### **Capital Structure**

Victor raised a £15,000 loan from the bank which he has almost paid back on a monthly basis. He invested his own £10,000 in the business as well. Since the start-up stage of the business he has used supplier credit as a major source of finance. He did not experience any problems in raising initial capital through a bank loan.

<b>Sources</b>	<b>Amounts (£)</b>	<b>Percentage (%)</b>
<b>Informal</b>		
Personal Savings	10,000	40
<b>Formal</b>		
Bank Loan	<u>15,000</u>	<u>60</u>
<b>Total</b>	<b><u>25,000</u></b>	<b><u>100</u></b>

### **Role of Family**

Victor is single and does not have a stable partner. He is devoted to his work and spends most of his time in the business. His family does not have any business background and all of his brothers and sisters live in the North of England.

### **Business Economy and Networks**

Victor relies heavily on local customers. Most of them are known to him. The majority are of indigenous origin, but around 20% are from immigrant communities - Greece, Cyprus, Pakistan, Spain and Italy.

Victor relies upon his personal networks as his suppliers and trade references. He has established an extensive network of business associates upon whom he calls from time to time.

### **Case E**

Andrew has a bachelor's degree in geography. After completing his studies he worked for a building society in the insurance department. After about five years of working he decided to quit his job and start his own business. He enquired around and found some information from the library on setting up a travel agency. He took time off from his work and decided to visit possible premises. He also read the Sunday press about the possibility of buying an existing business. Due to the high prices he decided to set up from scratch. He looked around for premises and decided on one of the shops in Birmingham.

He calculated the required amount of capital to be £15,000. He had his own savings of £6,000, his wife lent him £3000, and he borrowed £1,000 from an uncle, a retired medical doctor. The remaining £5,000 he raised through a bank loan.

“The raising of a bank loan was not too difficult. The bank was very helpful and offered me free advice on setting up my own business and how to manage it. I paid back the loan in two years.”

Andrew employed two sales executives to work with him and in 1984 started the business. He advertised in the local papers and the Evening Post. He also spread the word around his previous work place about his travel services. Andrew's wife was still working outside the business and practically managed the house alone while Andrew concentrated on the business. He ran the business under very tight financial management for two years. Then he joined ABTA and was awarded a licence by the IATA. Having the IATA licence meant that he did not have to make any credit arrangements with other travel agents as he had done in the past.

He further expanded the business by taking the next-door shop and recruiting more employees. Since start-up he relied upon the use of supplier credit to fund the business.

“I have managed business well and now I can afford to use the money in the account instead of paying the interest to the bank.”

He serves a large ethnic professional market in Birmingham. The university staff buy tickets from him to visit various parts of the world and sometimes Pakistan. There are doctors who are his customers and who visit Pakistan frequently. Nevertheless, he admits that the majority of his customers are of indigenous background making trips to Europe, USA, Australia, and the Far East. He specialises in competitive prices and last-minute flight availability.



At present he has seventeen staff working in the business, and all of them are non-family employees.

### Capital Structure

Andrew launched his business with a capital of £15,000 which he raised through formal and informal sources.

Sources	Amount (£)	Percentage (%)
<b>Informal</b>		
Personal savings	6000	40
Wife's Savings	3000	20
Other members of his family	1000	07
<b>Formal</b>		
Bank Loan	<u>5000</u>	<u>33</u>
<b>Total</b>	<b><u>15.000</u></b>	<b><u>100</u></b>

Since the start-up stage he has financed the business through supplier credit. His finance behaviour is not in line with the Pecking Order Hypothesis. He has financed his business through equity and debt. He did not have to turn to external equity which demonstrates that he prefers to take on debt rather than inviting external equity and diluting his interest and control.

### Role of Family

Andrew's wife supported him financially by lending him money as well as managing the house from her income. As well as this, his uncle lent him money which he returned at a later stage. No other member of his family has worked in the business. Andrew sees no

need of having partners or family members so he has never invited any of them to join him.

### **Business Economy and Networks**

The majority of his customers are of indigenous background who travel on business, holidays, and visits to relatives. A large proportion of his clientele comes from the immigrant communities in Birmingham, specifically Pakistanis of the professional classes. They visit Europe, the USA and Pakistan on holidays to visit relatives.

He has made extensive use of business networks. Initially, he used his personal networks to establish a credit line which was up to two weeks and sometimes extended to three weeks on a friendly basis. He also used his social networks to market and expand.

Table 7.1 and 7.2 highlight the patterns emerging from the above case study data.

**Table 7.1: Tendencies of capital structures among Indigenous businesses.**

CASE	Year Started	Organisation Status	Location	Owners Qualification	Ownership Structure	Informal Sources	Formal Sources	Network Typology
A - Start-up	1985	Partnership	Home	Degree	Entrepreneur / Wife / Business Partner	Personal Savings	Mortgage	Personal
Since Start-up	_____	Private Ltd Company	Home	_____	Entrepreneur / Wife	_____	Supplier credit, Bank Loan	Personal Institutional
B - Start-up	1987	Sole Trader	High Street	O &A Levels	Entrepreneur / Wife	Personal Savings/ Wife	Bank Loan	Personal
Since Start-up	_____	Private Ltd Company	High Street	_____	Entrepreneur / Wife	_____	Supplier credit	Personal
C - Start-up	1988	Partnership	High Street	O &A Levels	Entrepreneur / Wife / Cousin	Personal Savings Wife / Cousin's	Bank Loan	Personal Institutional
Since Start-up	_____	Private Ltd Company	_____	_____	_____	_____	Supplier credit	Institutional
D - Start-up	1991	Private Ltd Company	High Street	O &A Levels	Entrepreneur	Personal Savings	_____	Personal Institutional
Since Start-up	_____	_____	_____	_____	_____	_____	Supplier credit	Personal Institutional
E - Start-up	1984	Sole Trader	High Street	O &A Levels	Entrepreneur	Personal Savings Wife / Uncle	Bank Loan	Personal Institutional
Since Start-up	_____	_____	_____	_____	_____	_____	Supplier credit	Personal Institutional

**Table 7.2: Number of family and non-family employees in Indigenous businesses.**

INDIGENOUS BUSINESSES CASE	FAMILY MEMBERS		NON-FAMILY MEMBERS	
	Start-up	Since Start-up	Start-up	Since Start-up
A	1	0	1	3
B	0	2	1	8
C	0	4	1	17
D	0	0	1	3
E	0	0	2	17
<b>Totals</b>	<b>1</b>	<b>6</b>	<b>6</b>	<b>48</b>



The case study evidence was gathered in parallel to each other from both groups. The experiences learnt from case study meetings with one group were applied effectively to the other group. In response to the case study meetings, the refinement of the hypotheses was undertaken in the same manner as with the immigrant group. The changes made were in the wording and layout of the hypotheses. In order to establish the wider applicability of the hypotheses the data gathered was cross checked between the cases. These refined hypotheses were empirically tested on a wider sample through a postal survey. To achieve consistency in the data collection from two different groups and sixty different companies, a questionnaire with the same design and information was used. This also assisted us at the analysis stage as we had the comparable data to analyse and compare. The findings of the survey are reported in the next section.

## **7.2 Capital Structure of Indigenous Businesses (The Survey)**

### **7.2.i Sources of Capital - Start-up stage**

The main sources of finance used by indigenous businesses were broken down into two sections: formal and informal sources of finance. All firms used a combination of these sources. More firms relied on formal sources than on informal sources. Among the formal sources the most popular were bank overdraft followed by bank loans, and in the informal sources the entrepreneur's personal savings followed by his wife's savings were the most popular sources of finance. A total of 12 out of 30 firms, 40 percent, resorted to a bank overdraft facility at start-up. The bank loans were the second most popular source with 12 firms resorting to this source to satisfy their start-up capital needs. Only one firm

used a mortgage to raise finance for the business and another firm used supplier credit to satisfy up to 10 percent of its capital needs.

Among the informal sources 22 out of 30 firms had relied on personal savings heavily to raise start-up capital. Only 4 firms had used the wife's savings as a start-up capital.

Table 7.3 outlines the sources of start-up capital.

**Table 7.3: Frequency count of the sources of finance - start-up stage**

Sources of Finance	(%) 0 - 10	(%) 11 - 20	(%) 21 - 30	(%) 31 - 40	(%) 41 - 50	(%) 51 - 60	(%) 61 - 70	(%) 71 - 80	(%) 81 - 90	(%) 91 - 100	(%) Non-Used	Total
Bank Loan	7 (23)	2 (7)	-	2 (7)	2 (7)	1 (3)	-	-	-	-	16 (53)	30
Bank Overdraft	2 (7)	6 (20)	2 (7)	-	-	-	1 (3)	2 (7)	-	-	17 (56)	30
Mortgage	4 (13)	1 (3)	-	-	-	-	-	-	-	1 (3)	24 (80)	30
Leasing / H.P.	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Supplier Credit	1 (3)	-	-	-	-	-	-	-	-	-	29 (97)	30
Personal saving	-	1 (3)	-	2 (7)	2 (7)	1 (3)	3 (9)	3 (9)	1 (3)	3 (9)	14 (46)	30
Wife's Savings	1 (3)	-	1 (3)	-	2 (7)	-	-	-	-	-	26 (87)	30
Your Parents	-	1 (3)	-	-	-	-	-	-	-	-	29 (97)	30
Other members of your family	1 (3)	-	-	-	-	-	-	1 (3)	-	1 (3)	27 (91)	30
Members of another family / Friends	-	-	-	1 (3)	2 (7)	-	-	1 (3)	-	-	26 (87)	30
Other Partners	-	-	-	1 (3)	1 (3)	-	-	-	-	-	28 (93)	30
Inheritance	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Community/Savings club	-	-	-	-	-	-	-	-	-	-	30 (100)	30

The respondents were asked to outline the reasons for choosing the above sources. Seventeen firms reported that they chose a particular source due to its ease of availability. Fourteen firms chose the sources of finance because they were the only source available to them. An equal number of seven firms each chose sources of finance due to no collateral being required and the low cost at which the finance was available. Six firms chose a combination of sources due to their suitable terms. Table 7.4 outlines the frequency of the reasons for preferring particular sources of finance.

**Table 7.4: Frequency counts of reasons of preferring sources of finance start-up stage**

Reasons for preference	Preferred Frequency (%)	Totals
Only source available	14 (47)	30
Ease of availability	17 (57)	30
Suitable terms	06 (20)	30
Less information sought	04 (13)	30
No collateral	07 (23)	30
Low cost	07 (23)	30

The critical question of how much capital was needed to set up the business was asked in two steps. This soft approach was taken since the pilot fieldwork had shown that the respondents were unwilling to talk about the actual amounts involved. The first question asked about the amount of debt that they had to borrow at start-up. Thirteen firms reported that they did not have any debt in their capital structure at this stage of the business life-cycle. Table 7.5 gives the frequency counts of the amount of debt at the start-up stage.

**Table 7.5: Frequency counts of debt - start-up stage**

Amount of Debt (£)	Frequency (Cases)	Percentage %
No debt	13	43
1 - 4,999	02	7
5,000 - 9,999	06	20
10,000 - 14,999	03	10
15,000 - 19,999	02	07
20,000 - 24,999	03	10
25,000 - 29,999	01	03
30,000 - 34,999	-	-
35,000 - 39,999	-	-
40,000 or above	-	-
<b>TOTALS</b>	<b>30</b>	<b>100</b>



The second critical question related to the amount of equity invested in the business. The highest invested amount was £40,000 which was invested by 2 firms, and the lowest amount was £5,000 invested by 5 firms. Table 7.6 gives the frequency counts of the amounts of equity invested at the start-up stage.

**Table 7.6: Frequency counts of equity - start-up stage**

<b>Amount of Equity invested (£)</b>	<b>Frequency (Cases)</b>	<b>Percentage %</b>
No Equity	02	07
1 - 4,999	03	09
5,000 - 9,999	07	23
10,000 - 14,999	05	17
15,000 - 19,999	03	10
20,000 - 24,999	04	13
25,000 - 29,000	02	07
30,000 - 34,999	02	07
35,000 - 39,999	-	-
40,000 or above	02	07
<b>Totals</b>	<b>30</b>	<b>100</b>

The respondents were also asked if they had faced any problems in raising start-up capital. Twenty nine respondents reported that they lacked security when seeking capital from formal sources. The high street banks demanded fixed collateral as a security against business loans. The second most commonly reported problem was the insufficient documentation provided by the business owners to the high street bankers. Seventeen firms reported that the banks were very rigid on the information and the manner in which it was required. According to the respondents they needed the loan to run the business, but before they could even know whether they were likely to get the loan or not they had to spend money on the preparation of these documents to seek the loan.

### 7.2.ii Sources of Capital - Since Start-up

All firms had resorted to a combination of formal and informal sources of finance at this stage of the business. However, reliance on informal sources decreased significantly, compared with its use at the start-up stage. Personal savings were used by only 5 businesses. The wife's savings were only used by 2 businesses to satisfy 20 per cent of their financial needs. Among the formal sources retained profit was reported to be the most widely used source of finance. Fourteen firms reported that they used this source to fund the financial needs of the business. A bank overdraft was another very popular source of finance, used by 8 respondent firms to satisfy up to 40 per cent of their financial needs. Seven firms used bank loans to satisfy their financial needs. Supplier credit was also reported to be the most widely used source of finance. Table 7.7 gives the frequency counts of the main sources of finance used since start-up.

**Table 7.7: Frequency counts of main sources of finance since start-up stage**

Sources of Finance	(%) 0 - 10	(%) 11 - 20	(%) 21 - 30	(%) 31 - 40	(%) 41 - 50	(%) 51 - 60	(%) 61 - 70	(%) 71 - 80	(%) 81 - 90	(%) 91 - 00	(%) Non-Used	Total
Bank Loan	4 (13)	-	2 (7)	1 (3)	1 (3)	-	-	-	-	-	22 (74)	30
Bank Overdraft	1 (3)	3 (10)	2 (7)	1 (3)	-	-	-	1 (3)	-	-	22 (74)	30
Mortgage	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Leasing / H P.	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Supplier Credit	1 (3)	-	-	-	3 (10)	2 (7)	1 (3)	1 (3)	2 (7)	14 (47)	06 (20)	30
Personal saving	-	-	-	-	3 (10)	-	-	1 (3)	-	2 (7)	22 (74)	30
Wife's Savings	1 (3)	1 (3)	-	-	-	-	-	-	-	-	28 (93)	30
Your Parents	-	-	1 (3)	-	-	-	-	-	-	-	29 (97)	30
Other members of your family	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Members of another family / Friends	1 (3)	-	-	-	-	-	-	-	-	-	29 (97)	30
Other Partners	-	-	-	1 (3)	-	-	-	-	-	-	29 (93)	30
Inheritance	-	-	-	-	-	-	-	-	-	-	30 (100)	30
Community/Savings Club	-	-	-	-	-	-	-	-	-	-	30 (100)	30

The reasons for using the above sources were listed as: ease of availability by 21 businesses only source available by 8 businesses; suitable terms by 6 businesses; and the other reasons included less information sought, no collateral and low cost - shared equally by four firms. Table 7.8 outlines the frequency count of the reasons for choosing a particular source.

**Table 7.8: Frequency counts of reasons of preferring sources of finance since start-up stage**

<b>Reasons for preference</b>	<b>Preferred Frequency (%)</b>	<b>Totals</b>
Only source available	08 (27)	30
Ease of availability	21 (70)	30
Suitable terms	06 (20)	30
Less information sought	04 (13)	30
No collateral	04 (13)	30
Low cost	04 (13)	30

The critical question of how much further capital was invested in the business and its source was also investigated. This was done in two parts to reduce respondents' reluctance as discussed in chapter 5. Fourteen firms reported that they did not use any further debt in the business. Table 7.9 gives the frequency counts of the amounts of debts in the capital structures.



**Table 7.9: Frequency counts of debt - since start-up stage**

<b>Amount of Debt (£)</b>	<b>Frequency (Cases)</b>	<b>Percentage %</b>
No Debt	14	47
1 - 4,999	03	10
5,000 - 9,999	01	03
10,000 - 14,999	-	-
15,000 - 19,999	01	03
20,000 - 24,999	01	03
25,000 - 29,999	02	07
30,000 - 34,999	03	10
35,000 - 40,000	01	03
40,000 or above	04	13
<b>Total</b>	<b>30</b>	<b>100</b>

The second part of the question related to the amounts of equity injected into the business. Thirteen businesses reported no additional equity being invested in the business.

Table 7.10 gives the frequency counts of the additional equity invested in the business.

**Table 7.10: Frequency counts of equity - since start-up stage**

<b>Amount of Equity Invested (£)</b>	<b>Frequency (Cases)</b>	<b>Percentage %</b>
No Additional Equity	13	43
1 - 4,999	02	07
5,000 - 9,999	04	13
10,000 - 14,999	11	37
<b>Total</b>	<b>30</b>	<b>100</b>

The total amount invested since the start-up stage of the business was £55,000, raised through debt and equity.

### **7.3 Family Contribution in Financing and the Role of Community**

Family members - nuclear (wife, and parents) and extended families (members of other family) - played an important role in providing start-up and post start-up capital. On average two family members were employed to work in the business against the average of seven non family employees. The highest number of family employees was nine and of non-family employees was seventeen. Family members were employed as a part of the closed family phenomenon, where trust and loyalty was regarded highly. Most of these relationships were as brothers and sisters, husband and wife, uncle, aunt and cousins. They were seen as reliable, trustworthy, and loyal to the well-being of the business. They were paid salaries in relation to their work and the salaries of the other non-family employees. No special consideration was given to family. Only in those cases where the family member was also a shareholder did they command the leadership role. In other instances the family members were offered supervisory roles to oversee the operations of the business and to report to the business owner or to seek business development through creating long-term relationships with their customers. Table 7.11 outlines the number of family and non-family employees per case.

**Table 7.11: Number of family and non-family employee per case indigenous-business**

<b>No. of Business</b>	<b>Family Employees</b>	<b>Non-Family Employees</b>	<b>Total Employee per Business</b>
1	03	05	08
2	03	05	08
3	02	17	19
4	03	03	06
5	02	08	10
6	01	02	03
7	-	04	04
8	02	01	03
9	02	04	06
10	02	14	16
11	01	17	18
12	04	15	19
13	02	12	14
14	01	03	04
15	01	03	04
16	-	02	02
17	01	15	16
18	03	05	08
19	04	01	05
20	02	01	03
21	01	03	04
22	-	08	08
23	02	03	05
24	03	10	13
25	03	05	08
26	09	11	19
27	02	07	09
28	04	16	20
29	03	05	08
30	02	05	07
<b>Total</b>	<b>28</b>	<b>210</b>	<b>277</b>
<b>Average</b>	<b>6.22</b>	<b>13.55</b>	<b>17.87</b>

The majority of their customers were indigenous White though some of the customers were non-White. Ninety-seven per cent of their turnover was earned from European (including English) and primarily White customers and 3 per cent from non-White customers.



#### **7.4 Financial Networks Typology**

Three types of network typologies were identified in supporting and providing capital throughout the various stages of the business life-cycle. The same business life-cycle approach was adopted here as for the immigrant businesses in the previous chapter. The network typology is developed from Johannisson (1987) and Arocena (1984). The first type is identified as personal networks, which includes informal sources of finance involving personal savings of the entrepreneur, wife's savings, immediate family, parents, other members of the extended family, and inheritance. The second identified network type was symbolic networks, which included members of another family and friends, and other business partners. The third identified network type was institutional networks which included bank loan, bank overdraft, mortgage, leasing and hire purchase, and supplier credit.

This research shows that at the start-up stage indigenous businesses raise finance through institutional networks. Of the firms surveyed, 44 per cent of the total capital was raised through these networks compared with 40 per cent raised through personal networks and 16 per cent through the symbolic networks. The average total capital raised at the start-up stage was £20,000, as a combination of debt and equity invested in the business. This amount was cross-checked with the IATA stipulation on the minimum capital requirement for approved agents, which is £20,000 for agents with up to £2 million turnover.

**Table 7.12: Percentage of total capital raised through various networks at start-up**

PN =	P	+	W	+	Pa	+	Of	+	I		
	9	+	7	+	3	+	3	+	0	=	22%
n =	3	+	2	+	1	+	1	+	0	=	7
SN =	AF	+	Op							=	10%
	7	+	3.3	+		+				=	10%
n =	2	+	1	+		+				=	3
IN =	L	+	O	+	M	+	H	+	S		
	23	+	20	+	13	+	0	+	3	=	59%
n =	7	+	6	+	4	+	0	+	1	=	18
Total capital invested at start-up											<u>£20,000.00</u>

The reported n is based on the respondent businesses; the non-respondents are not included in the table.
--

As the firm moved into the growth and maturity stages the role played by personal networks decreased to 19 percent contribution to the total capital requirement. The role of symbolic networks decreased from 16 percent to 14 percent. The significant increase had taken place in the contribution by the institutional networks of 67 per cent of the total capital requirements. The total capital invested at this stage was £55,000.

**Table 7.13: Percentage of total capital raised through various networks since start-up**

PN =	P	+	W	+	Pa	+	Of	+	I		
	10	+	3	+	3	+	0	+	3	=	19%
n =	3	+	1	+	1	+	0	+	1	=	6
SN =	AF	+	Op	+	Bi	+	K				
	3	+	3	+	0	+	0			=	6.6%
n =	1	+	1	+	0	+	0			=	2
IN =	L	+	O	+	M	+	H	+	S		
	13	+	10	+	0	+	0	+	47	=	70%
n =	4	+	3	+	0	+	0	+	14	=	21
Total capital invested since start-up											<u>£55,000.00</u>

The reported n is based on the respondent businesses; the non-respondents are not included in the table.
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## 7.5 Supplier Credit

As outlined earlier, the literature on supplier credit is very sparse. This research shows that 20 out of 30 firms had supplier credit arrangements in place at start-up. Ten firms did not have any credit arrangements. One firm had a cash in advance arrangement, six firms had a cash-on-delivery arrangement, and 3 had advance rolling deposits in place.

Table 7.14a gives the supplier credit availability at start-up.

**Table 7.14a: Supplier credit at start-up stage: Methods of payment available to businesses**

Methods of Payment	Available Frequency (%)	Totals
Cash in advance	1 (3)	30
Cash on delivery	6 (20)	30
Advance rolling deposit	3 (10)	30

The reasons for not receiving credit were primarily lack of trust by the suppliers. Since the travel business is considered a low-margin business any loss can have a drastic effect on the operations of the business and suppliers are reluctant to allow credit for start-up.

Where the credit was allowed it was from institutions like the International Air Transport Association (IATA) who had a Bank Settlement Plan which allowed a six week credit to its members. The firms found it easier to receive supplier credit once they had become the IATA approved agent. Table 7.14b gives the frequency of supplier credit received by the number of the firms.



**Table 7.14b: Supplier credit period at start-up stage**

<b>Number of weeks credit received</b>	<b>Frequency (%)</b>
0	10
2	2
3	1
4	14
5	1
6	2
<b>Totals</b>	<b>30</b>

The IATA approved agents were part of a system whereby every six weeks they were required to submit the Bank Settlement Plan (BSP). The sums received from the customers for the sale of the tickets included the cost of airline and profit for the agent. This amount was received on trust for the airline carrier and the IATA approval of agent gave a guarantee to the airline company against the travel agents' ability to pay for the tickets sold. This was done through the BSP submission. However, all respondents reported that they used the sums as their working capital prior to the submission. This was considered the most beneficial source of short-term finance. Respondents also utilised these sums to gain interest on the deposit return bank accounts. Because of this behaviour overdrafts or bank loans were not very popular among these businesses.

## **7.6 Summary**

The aim of this chapter was to report on the empirical findings about the capital structures of indigenous-owned small businesses. This aim was achieved by following a two-stage research strategy. Stage one included a case study approach and in stage two a postal

questionnaire was conducted. The results of both stages have been reported in this chapter.

The indigenous-owned businesses, on average, were started with a capital of £20,000. This was raised through informal and formal sources of finance. Among informal sources the business owner's personal savings, his wife's savings, and funds from members of the other family were used. Formal sources included a bank loan, bank overdraft, mortgage, and a business partner. At this stage of the business a total of 56 percent of the capital was raised through informal sources and the remaining 44 percent was raised through formal sources.

At the growth and maturity stages, both informal and formal sources were resorted to, to raise a post start-up capital of £55,000. However, informal sources only accounted for 33 percent of the total capital raised at the growth stage of the business and the remaining 77 percent was raised through formal sources. Informal sources remained unchanged. Formal sources used at growth stage included supplier credit, bank loan, bank overdraft, and mortgage. Supplier credit was the only source used at the maturity stage of the business.

The business owners did not feel disadvantaged when borrowing funds from the bank. However, they were unhappy about the process of presenting a business plan and cash flow which took time and money. The finance behaviour adopted was to avoid formal

finance due to its cost in terms of initial documentation, interest rates, and repayment plans. The cost of informal finance was regarded as lower by the business owners. The overall finance behaviour adopted was in line with the Pecking Order Hypothesis since the business owners preferred internal resources to debt and then external equity as a last resort.

The number of family members employed was less than the non-family member employees. The business owners considered it easier and beneficial for the business to recruit more non-family employees since they brought their business contacts together with their expertise to the business. The non-family members were involved in selling the business services, where as the family members were more involved in the administration of the business. The personal networks were more popular at the start-up stage, followed by the institutional networks which were popular at the growth and maturity stage.



## **Chapter 8**

### **The Comparative Capital Structures of Pakistani-immigrant and Indigenous-owned Small Businesses**

#### **8.0 Introduction**

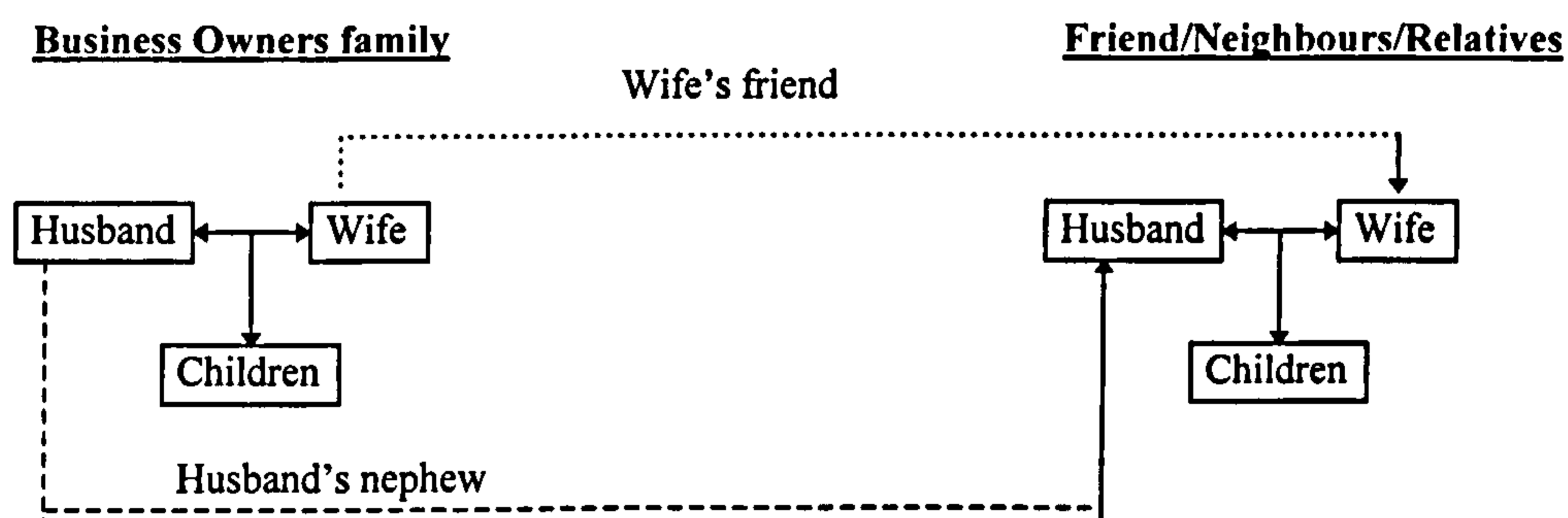
The aim of this chapter is to answer the research question and to test the research hypotheses. The previous two chapters provided the empirical evidence to establish an understanding of the capital structures of Pakistani-immigrant and indigenous-owned small businesses. This chapter is divided into five sections. The capital structures of Pakistani-immigrant businesses are analysed in the first section. The second section analyses the capital structures of the indigenous-owned small businesses. The third section concentrates on the similarities and differences among both groups. The answer to the research question is presented together with the results of the tests of the hypotheses in section four. The fifth section concludes the chapter.

#### **8.1 Capital Structures of Pakistani-Immigrant Owned Businesses**

These immigrant businesses were set up between 1980 and 1986. The owners of the business did not have any business experience in their native land. All businesses had been financed by the business owners themselves from their personal savings, wife's savings, relatives and contributions from friends. Few of them had obtained bank overdraft facilities. Those who had approached a bank did not report any problems in securing a loan. The general attitude towards a bank loan was that if one could avoid it so much the better. Therefore the formal sources of finance, bank overdraft, and bank loans were not popular at the business start-up stage. The informal sources of finance were mobilised owing to the ease of availability with no added cost of

borrowing. However, the informal sources had an indirect cost of borrowing. For example, if the money was borrowed from a member of immediate family, friends or relatives, at some stage the business owner was expected to do the same for them. Friendship ties rested upon affection and sincerity, neighbourhood ties on contacts on a daily basis, and relations on a relatively permanent basis. These groups overlapped to a certain extent, where friends were neighbours and relatives at the same time.

Figure 8.1 shows these relationships.



**Figure: 8.1** A typical family/friends/neighbours network.

A mechanism called *atta satta*, meaning returning the favours based on the principle of reciprocity existed. This type of network existed primarily due to the system of *biraderi*. A strong sense of obligation exists among the *biraderi* members, meaning one must try to help others without any self-interest, but being sure that help would be on hand from others, if required. For example, in the case of Mr Shah (case D), he was seen in the community as a fatherly figure, a status which he had achieved by offering his services as a travel agent, a funeral organiser, an informer on various matters like immigration, obtaining National Insurance numbers, filling in various official forms, and match-making for weddings in the UK and in Pakistan. He has high status among the community which makes him feel secure he may not call upon help from others, but he has the sense of security that in a time of difficulty the

community would unite behind him. His children are treated with respect and affection by the community due to their father's services to the community. This illustrates the importance of *biraderi* among the immigrants and the continuing sense of obligation it engenders. The major activities related to *biraderi* consisted of members giving each other financial aid and goods of value, and a wide range of services at specific times. A sense of obligation to offer one's service or to acknowledge this at such times as births, circumcisions, weddings, deaths, accidents, disasters and personal troubles, was also there.

Some community members were allowed credit over and above the lower-than-market price charged for their tickets. Under such circumstances the business owner was expected to accept demands made on him by various members of his community purely due to the mechanism of *atta satta*. The main source of finance since the start-up stage was supplier credit.

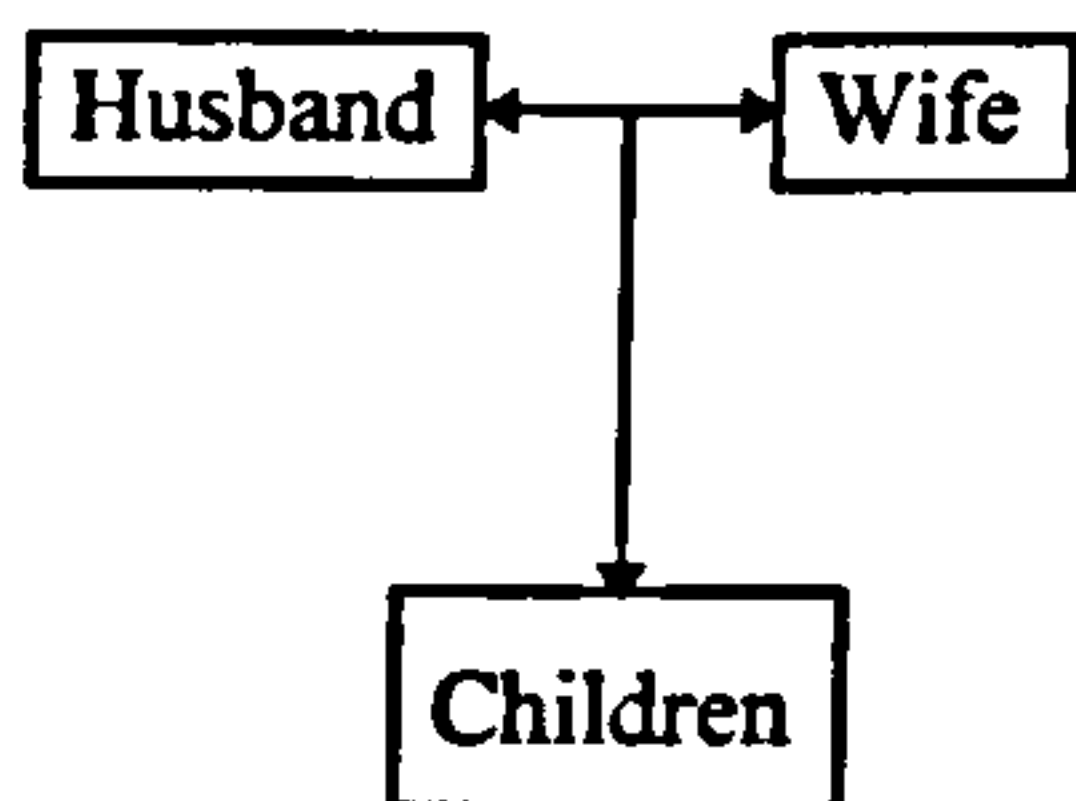
At the start-up stage the payment terms allowed were cash-only basis. Once a bond of trust had been established between the parties a two-week credit period was granted by the supplier travel agents to the bucket shops. The post start-up stage offered the benefit of a BSP system set up between the travel agent and IATA. As a result, supplier credit was extended up to six weeks. All the businesses studied benefited from the BSP system by way of facilitating a healthy cash flow and supplier credit to finance the business. Furthermore, these funds were invested in a high-interest deposit account for a period of four weeks. Then the principal amount was transferred to IATA and the interest earned was available for the business.



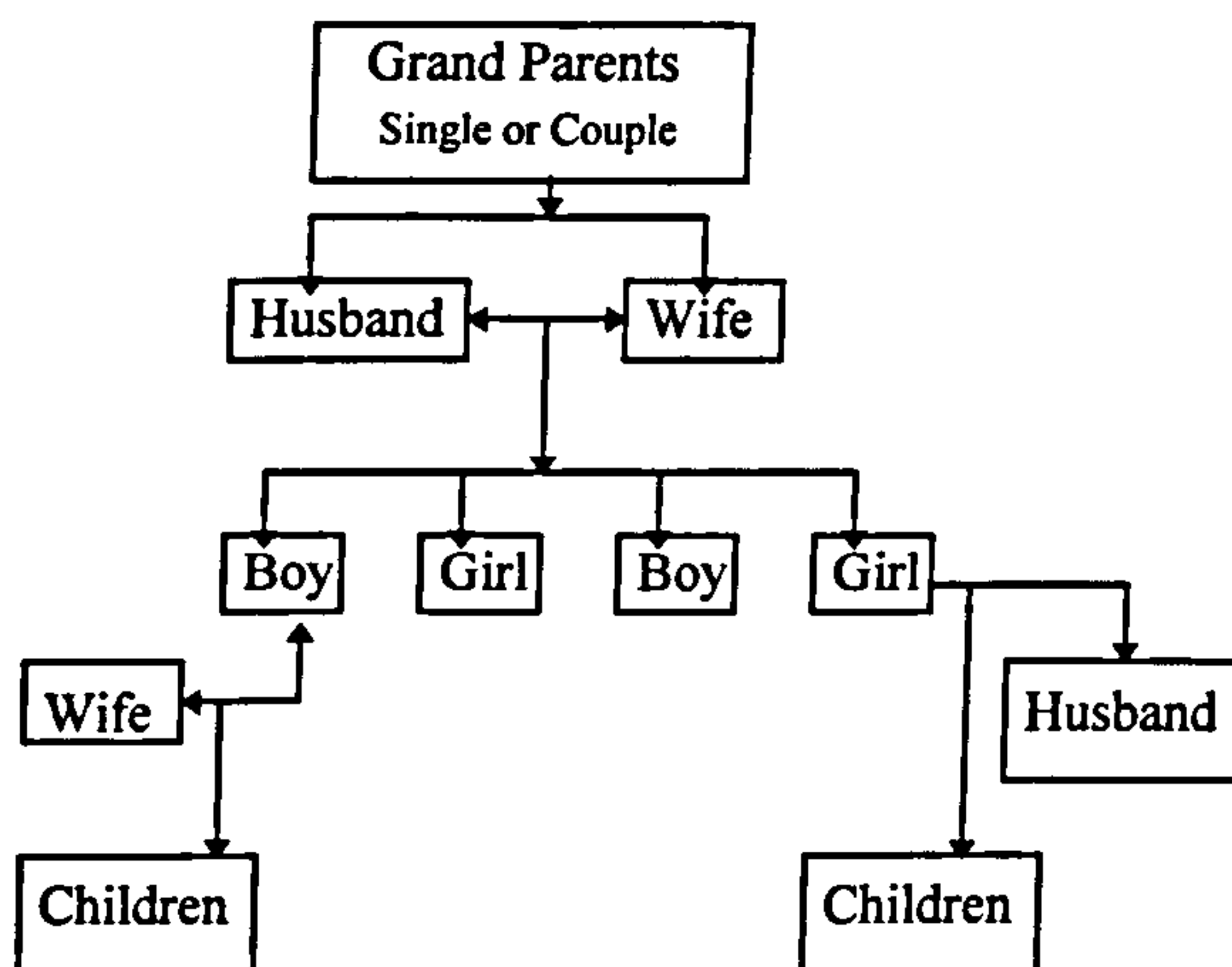
The *kommiti* played a significant role in financing businesses. However, the *kommitti* made more positive contributions than the business owners reported. For example, in one particular case it was reported by the entrepreneur that his wife was involved in a *kommitti* which acted as her savings club. These savings could be used by the family during difficult periods. For example, the wife used such savings to run the household when the husband was unable to spare any money from his newly established business. The researcher was seeking a direct link between business finance and the *kommitti*. This, contrary to conventional wisdom, does not seem to exist in this particular type of businesses. However, the fact must not be ignored that the *kommitti* has played a crucial role as a “kitty” for the wife to draw upon. Therefore, it can reduce the burden on the owner whereby the wife manages the house while he concentrates on the business. In all the cases the business owner’s wife had contributed, either through her savings, *kommitti*, or some other income-generating activity, towards the household at times when the business owner had little or no income.

The family also played a crucial role in mobilising support for the success of the business. The traditional family in Pakistani society is the extended and joint family - a group of people living together in one house. The composition differs from one family to another, due to different stages of the life-cycle, for example parents with their children, parents living with married sons and their children. Figure 8.2 illustrates this.

### 1. Nuclear Family



### 2. Extended Family



**Figure: 8.2: Different types of household structure.**

Among the Pakistanis interviewed a typical family consisted of members of a conjugal family (husband, wife and children) where the married son lived apart from his parents and siblings. In some cases it included all members of a joint family, i.e. the mother and father, their married sons, their wives and children, unmarried sons and daughters and occasionally a widowed daughter. Some were a stem family, the aged parents living with one of their sons and his wife and children, the other grown-up sons having established their own households. Another type was one where several brothers lived together with the married brother taking responsibility for their education and arranging their marriages. During the early stages of the settlement there were households with distant relatives, or people from the same village or district lived as lodgers. They were usually temporary members and left to establish their own households when their wives and children joined them.

The role of the family was a three-dimensional one. Firstly, the family mobilised financial resources wherever they could to lend money to the business owner. All lending took place on a no-interest basis on the inherent understanding of *atta satta* -

that in future the business owner would have to help when called upon. There was no set repayment plan. Promises were made as to the time limit for how long the money would be used and when it was expected to be returned. The evidence from the cases show that most of these promises were kept and the money was returned on time.

Secondly, the family supported the business through seeking customers by spreading the word in the community. Support for the business was gathered from within the community by identifying the owner of the business as being from a particular part of Pakistan, or belonging to a particular caste, or as being married into a particular family. The attitude adopted was that one should identify themselves with the customers to keep them loyal.

Finally, the role of the family as labour was also important, although not as much as emphasised in the literature. It was also reported that the nature of the business is such that a lot of it is done through word of mouth. The more non-family employees one had in the business, the wider the personal and social network.

The majority of the businesses examined had a very restricted market, Pakistani-immigrants specifically, but in general the immigrant community from the sub-continent. The seasonal business was the pilgrimage trips for *haj*. Some also provided funeral services to send the deceased back to Pakistan. Others provided overseas student's services like sending their baggage back home at the end of their studies. A very limited business was done with the indigenous customers. This all amounted to the fact that these businesses operated in an ethnic enclave economy.



A large proportion of the Pakistani population in the UK are from the Punjab, Jehlum, and Mirpur. To reach their destinations they often need connecting flights. Travelling to Pakistan, other than on Pakistan International Airlines (PIA), causes inconvenience, considering the language barriers at check-in, in-flight services, and the connecting flight arrangements. The travel agents also push the sale of PIA tickets since this is their main carrier. It is also convenient for them to negotiate the services, people speaking their language work in the airline offices, networks are nourished to reserve and hold seats which is difficult to do in the case of any other airline. Travel agents encourage their clients, travelling to Pakistan, to travel by PIA and support their national airline, often statements are made such as “Preserve your Pride and Independence travel by PIA”, implying that one should travel by the national airline and support the country. This goes down well with the first generation of migrants who initially arrived in the UK with the intention of returning home after saving sufficient money. However, the second generation is not so keen on supporting the airline and Pakistan. Many of them do not see themselves as Pakistanis; being born in the UK it is their home to them, and Pakistan is a place with ancestral roots.

These businesses were set up, on average, with a capital of £20,000. This was raised through informal and formal sources. The amounts raised through the informal sources at the start-up stage were £16,600 (83.3%) of the total capital and the remaining £3,400 (16.7%) was raised through formal sources. Among the informal sources, personal savings, *kommitti*, wife’s savings, the business owner’s parents and friends were reported to be the most useful in their financial support for the business. As the business moved on to the growth stage the amounts raised through the informal sources decreased to £3,450 (23.6%) of the total capital requirements. The amounts

raised through formal sources increased to £11,500 (77%). The reason for this shift was primarily due to the fact that the business was able to use the supplier credit which alone accounted for £7,050 (47%) of the post start-up capital. The business owners reported that among informal sources personal savings, wife's savings, and other family members contributed to the financial needs of the business. Among formal sources the most popular were supplier credit (BSP - IATA), bank overdraft and bank loan. Supplier credit alone was reported to be widely in use at the maturity stage of the business. Overall finance behaviour was in line with the Pecking Order Hypothesis theory since the business owners preferred internal resources over debt, and debt over external equity.

The role of networks was also significant in the make-up of the capital structure of these businesses. At start-up the personal networks played an important role. Personal networks were joined by the symbolic networks at the growth stage. The highlighting factor at this stage was the role of *biraderi*. *Biraderi* was very helpful in mobilising financial support and spreading word of mouth to seek business throughout the life-cycle of the business. The business owners had kept in touch with the members of their close community, who had supported them on their arrival in the UK and also with those whom they had supported in settling down in the UK. There was a strong sense of solidarity among the group, a common purpose to survive and make it better here than they could have achieved in Pakistan. Failure to assimilate in the host society was pinned on racism, lack of trust, and fear of allowing the immigrants to spread too far into the community. This "push factor" away from the host society was a common problem to which a common solution was being sought by supporting each other in business as customers and suppliers.

The business premises were located in the immigrant community that it offered its services to. The advertisements, and the *haj* trips were all geared towards the immigrant community. The only other travel-related activity offered by two of the reported cases was freight to the same destinations as their customers. Air freight was offered as an additional service rather than as the main business activity.

In 3.4 a number of business life-cycle theories were critically analysed to choose one for this study. A combination of four business life-cycles was used to develop a three-stage model with a view to enhancing our understanding of the small-business financing practices through the various stages of the life-cycle. The empirical evidence gathered on the capital structures of Pakistani-immigrant businesses is given in table 8.1 below.



**Table 8.1: Capital structures of Pakistani-immigrant small businesses.**

<u>Start-up</u>	<u>Growth</u>	<u>Maturity</u>
<b>Sources of Finance</b>	<b>Sources of Finance</b>	<b>Sources of Finance</b>
<b>Informal</b>	<b>Informal</b>	
Personal Savings	Personal Savings	
Kommitti	Wife's Savings	
Wife's Savings	Other Family members	
Parents		
Friends		
<b>Formal</b>	<b>Formal</b>	<b>Formal</b>
Bank Overdraft	Supplier Credit	Supplier credit
Bank Loan	Bank Overdraft	
Mortgage	Bank Loan	
Other Partners	Mortgage	
<b>Networks</b>	<b>Networks</b>	<b>Networks</b>
Personal	Personal	Symbolic
	Symbolic	Institutional
<b>Business Economy</b>	<b>Business Economy</b>	<b>Business Economy</b>
Ethnic Enclave	Ethnic Enclave	Ethnic Enclave

## 8.2 Capital Structures of Indigenous Owned Businesses

The indigenous businesses had started their businesses between 1984 and 1991. The owners had some prior exposure to the travel industry and were familiar with the operations of a travel office, although none had been involved in another travel agency of the same nature as the one set up by them. All of them used their personal savings as initial capital to start-up. None of them reported having faced any real problems when seeking a loan from a bank. However, they were not keen to apply to banks for loans due to the burden of debt and interest payments. This was considered as a last resort for financing the business. Among the informal sources, personal savings of the business owner, wife's savings, friends, and other members of the family were popular sources of raising capital. The formal sources were more popular at the post start-up stage. Among these the most widely used source was supplier credit.

The second most preferred source was the overdraft. Due to the high turnover of the business and regular cash flow, overdrafts were not used for a long period of time. Bank loans were also used for various reasons, such as buying partners out, and also for business development.

The capital structures were formed from various informal and formal sources of finance. The businesses were set up with an average capital of £20,000. Informal sources contributed £11,200 (56%) of the total start-up capital. The remaining £8,800 (44%) was raised from the formal sources. Informal finance was raised from personal savings, wife's savings, and members of another family. The savings club or other form of community sources were not reported to have been used as a source. The formal sources included bank loan, bank overdraft, mortgage, and business partners. The total post start-up capital increased to £55,000. As a result the amounts raised through informal sources increased to £18,150 (33%) and through formal sources to £36,850 (67%). The informal sources remained unchanged. However, a significant percentage (47%) of the total post start-up capital was provided by supplier credit. The other formal sources remained unchanged at this stage. The overall finance behaviour was in line with the Pecking Order Hypothesis. The reasons for such behaviour were to avoid dilution of interest, loss of managerial control, and losing entrepreneurial freedom.

The role of the family was significant in mobilising financial support, but not as much as reported by the Pakistani businesses. The role of family labour was also not very prominent. This was due to the lack of cohesiveness in the family. The Pakistani business owners lived under an extended family system and were able to call on

casual labour but the indigenous businesses did not have any casual family labour. There were two major reasons reported for the comparatively high number of non-family employees among both groups. Firstly, the lack of a trained travel agent in the family made it impossible to employ someone from within the family, it was far easier to recruit from the open market. Secondly, since word of mouth was an effective medium of selling, the business owners recognised a non-family employee as one bringing in new business through his/her network of family and friends. As a result personal, symbolic, and institutional networks were relied upon.

Personal networks played a role at start-up, whereas institutional networks were more popular at growth and maturity stages. The role of symbolic networks was reported to be non-existent among indigenous businesses. The personal networks were effective in introducing the business to their friends and family. No financial support was provided by personal networks. At the growth and maturity stages financial support was provided by the institutional network in the form of a supplier credit.

The indigenous businesses dealt with indigenous customers, though a few had an immigrant clientele. The immigrant clients were professionals like doctors, accountants, and dentists, who were referred to the travel agent by their fellow colleagues.



**Table 8.2: Capital structures of indigenous small businesses.**

<b><u>Start-up</u></b>	<b><u>Growth</u></b>	<b><u>Maturity</u></b>
<b>Sources of Finance</b>	<b>Sources of Finance</b>	<b>Sources of Finance</b>
<b>Informal</b>	<b>Informal</b>	
Personal Savings	Personal Savings	
Wife's Savings	Wife's Savings	
Members of other family	Members of other family	
<b>Formal</b>	<b>Formal</b>	<b>Formal</b>
Bank Loan	Supplier Credit	Supplier credit
Bank Overdraft	Bank Loan	
Mortgage	Bank Overdraft	
Business Partner	Mortgage	
<b>Networks</b>	<b>Networks</b>	<b>Networks</b>
Personal	Institutional	Institutional
<b>Business Economy</b>	<b>Business Economy</b>	<b>Business Economy</b>
Indigenous Customers	Indigenous Customers	Indigenous Customers
Wider Market	Wider Market	Wider Market

Unlike the Pakistani businesses, indigenous businesses operated in the open market and offered their services to a wider range of customers. For example, Pakistani businesses concentrated on travel to Pakistan, *haj* pilgrimages, and flights to the Middle East and Africa, but few other routes. The indigenous businesses, however, offered no *haj* pilgrimage tours, few flights to Pakistan, the Middle East, or Africa, but mainly routes to the USA, and other European destinations. The services provided were affected by the type of clientele they attracted. The Pakistani businesses attracted more Pakistani-immigrant customers and very few indigenous customers. The indigenous businesses showed the reverse of this.

### **8.3 Comparative Capital Structures of Pakistani and Indigenous Businesses**

The objective of this chapter is to seek an answer to the research question:

What differences exist between the capital structures of Pakistani-immigrant-owned small businesses when compared with indigenous-owned small businesses throughout their life-cycle?

The findings of our research show that there are more similarities than differences when the capital structures of Pakistani-immigrant-owned small businesses are compared with the indigenous-owned small businesses. These are highlighted in table 8.3 below.

The capital structures of these businesses are discussed in the context of Pecking Order Hypothesis (POH) theory. Both groups of businesses are in line with the POH theory. This has been demonstrated by them in selecting equity over debt and debt over external equity. Equity is needed since all business owners invest initial capital to set up the business and only then the formal sources of finance may be approached for debt. The amounts borrowed from informal sources are seen as financial favours and not as a debt to be paid back with interest rates and monthly payments. Debt is preferred over external equity to avoid dilution of interest and loss of managerial control. Due to the size of businesses and scale of their operations the issuing of new shares, in an open market, is not considered as a realistic option.

Specific differences exist in the informal financing practices of both groups. The Pakistani businesses are financially supported by their friends who are members of their *biraderi*. The immigrant spirit of looking after one another and staying close to the community is found to be very strong among this group. Women in the community organise *kommitti* which provide financial assistance to the business. Among the formal sources Pakistani businesses were supported by bank overdrafts since the owners of the businesses feel that it is a safer source of short-term finance than bank loans, in that they are available without collateral, and the bank only charged a pre-determined fee which, compared to interest payments on bank loans

was considered to be the safer option. However, both groups of businesses had used bank loans throughout the life-cycle of the business.

As discussed earlier, Pakistani businesses operate in the ethnic enclave as opposed to the wider market. This affects their business growth and its size since they are operating in a niche market which is being served by fellow immigrants. Due to this business economy symbolic networks, community ties, social bonds, and conformity to collective values are strong among the Pakistani businesses.

Supplier credit was used significantly by both groups of businesses. After the start-up period the need to seek external finance had decreased due to the provision of supplier credit. This as a source of finance has a significant impact on the capital structures of both businesses in that they only occasionally resorted to any external source since internal financing was available. Even when they did resort to external financing it was for smaller amounts over a short-term. This is a sample-specific phenomenon and must not be generalised to other industries.

Although all businesses had started trading during the 1980's the indigenous businesses had recruited twice as many employees since start-up as the Pakistani businesses. The reason for this faster growth was primarily due to the fact that the size of the market served by the indigenous travel agents is much wider, allowing them to offer their services to the wider market with a greater number of customers. By contrast the indigenous businesses operate in an ethnic enclave and are only able to provide their services to fellow immigrants, with the exception of a few who have a local indigenous clientele. Therefore, the average size of Pakistani-owned travel



agents is significantly smaller than the comparable average size of indigenous-owned travel agents. It is worth noting here that a similar pattern is reported by Khan (1987) among the UK manufacturing firms (see chapter 2).

**Table 8.3: Comparative capital structures of Pakistani-immigrant and indigenous-owned small businesses.**

Pakistani Businesses	Indigenous Businesses
<p style="text-align: center;"><b><u>SPECIFIC</u></b></p> <p>Sources of Finance Informal                      Kommitti                      Parents                      Friends                      Other Family Members                      Formal                      No Specific</p> <p>Start-up Growth Maturity                      ✓ -----                      ✓ -----                      ✓ -----                      ----- ✓                      -----</p> <p>Networks Symbolic                      Business Economy Ethnic Enclave</p>	<p style="text-align: center;"><b><u>COMMON</u></b></p> <p>Sources of Finance Informal                      Personal Savings                      Wife's Savings</p> <p>Formal                      Bank Loan                      Bank Overdraft                      Mortgage                      Business partners                      Supplier Credit</p> <p>Networks Personal                      Business Economy No specific</p> <p>start-up Growth Maturity                      ✓ ✓                      ✓ ✓                      ✓ ✓                      ✓ -----                      ----- ✓</p>
<p style="text-align: center;"><b><u>SPECIFIC</u></b></p> <p>Sources of Finance Informal                      Members of other family</p> <p>Formal                      No Specific</p> <p>Networks                      No specific                      Business Economy Wider Open Market</p> <p>Start-up Growth Maturity                      ----- ✓                      -----</p>	<p style="text-align: center;"><b><u>SPECIFIC</u></b></p> <p>Sources of Finance Informal                      Members of other family</p> <p>Formal                      No Specific</p> <p>Networks                      No specific                      Business Economy Wider Open Market</p> <p>Start-up Growth Maturity                      ----- ✓                      -----</p>

Both groups of businesses started, on average, with the same amount of capital and made use of informal and formal sources of capital. The Pakistani-immigrant businesses were different at start-up in that these have been supported by *biraderi* and community financial mechanisms such as *kommitti*. The indigenous businesses were not supported by such informal sources due to the lack of community-based mechanisms. At the growth stage these businesses were also supported by the extended family, uncles and cousins, whereas the indigenous businesses were supported by the members of another family, i.e. in-laws of the business owner. Both groups made use of supplier credit at the growth and maturity stages as a main source of finance.

Among formal sources of finance both groups used three sources of finance: bank loan, bank overdraft, and mortgage. The Pakistani businesses used more short-term finance such as a bank overdraft followed by the bank loan. This was reported to be the case due to the loan-averse behaviour of the business owner. On a bank loan they were required to make monthly payments with interest whereas the overdraft facility was preferred since there was a set fee for it and it was only used if needed.

The reasons for preferring to choose a particular source of finance are given in table 8.4 below.



**Table 8.4: Reasons for preference of sources of finance throughout the life-cycle Pakistani-immigrant and indigenous businesses.**

Reasons for Preference	Start-up		Since Start-up	
	Indigenous (%)	Pakistani (%)	Indigenous (%)	Pakistani (%)
Only source available	19	14	14	08
Ease of availability	14	17	21	21
Suitable terms	11	06	02	06
Less information sought	03	04	04	04
No collateral	04	07	02	04
Low cost	03	07	03	04

There were no significant differences among the both groups in reasons for preferring the same source of finance.

Where a bank loan was raised both groups reported that the fixed collateral, i.e. the business owner's house, was required by the bank.

There were also no significant differences reported in the problems faced when raising capital through various sources. The frequency counts of these problems are given below in table 8.5.

**Table 8.5: Problems faced when raising finance by Pakistani-immigrant and indigenous businesses.**

Problems faced in obtaining finance	Start-up		Since Start-up	
	Indigenous (%)	Pakistani (%)	Indigenous (%)	Pakistani (%)
Insufficient documentation	5	0	6	1
Lacked security	20	29	1	1
Bank did not understand the business	0	1	2	0
Size of business	3	0	0	0
Lack of track record	4	1	6	1
Mistrust/Prejudice	4	0	7	1

The ownership structure was also similar among both groups of businesses. The majority of the businesses were jointly owned by the entrepreneur and his wife.

In this section an attempt has been made to report on the empirical findings of the capital structures of both groups of businesses. A comparison has been drawn to highlight any similarities and differences among the capital structures of these businesses. The next section addresses the research hypotheses.

#### 8.4 Research Hypotheses

The findings support the hypotheses of this study.

##### **Hypothesis 1.**

Pakistani-immigrant-owned small businesses use larger amounts of informal sources of finance at the start-up stage of the business life-cycle and smaller amounts of formal sources of finance than indigenous businesses, whereas at the maturity stage they predominantly use formal sources of finance.

##### **Hypothesis 2.**

Indigenous-owned small businesses use larger amounts of formal sources of finance at the start-up stage of the business life-cycle and smaller amounts of informal sources of finance than Pakistani-immigrant-owned businesses, whereas at the maturity stage they predominantly use formal sources of finance.

**Table 8.6a: Percentage of informal / formal sources of finance used by Pakistani and indigenous small businesses at start-up Stage.**

	Pakistani	Indigenous
Informal Sources	n 16	n 10
Formal Sources	3	18
After Yate's correction $X^2 = 10.77$ which is significant at the 0.05 level.		
The reported n is based on the respondent businesses; the non-respondents are not included in the table.		

**Table 8.6b: Percentage of informal / formal sources of finance used by Pakistani and indigenous small businesses since start-up stage.**

	Pakistani	Indigenous
Informal Sources	n 7	n 8
Formal Sources	22	21
After Yate's correction $X^2 = 0.206$ which is not statistically significant even at the 0.25 level.		
The reported n is based on the respondent businesses; the non-respondents are not included in the table.		

It can be observed from the table 8.6a that Pakistani-immigrant-owned small businesses use significantly larger amounts of informal sources of finance at the start-up stage and smaller amounts of formal sources of finance than indigenous businesses which supports hypothesis 1. The table 8.6b shows a very similar profile of both Pakistani and indigenous-owned small businesses in that they predominantly use formal sources of finance at post start-up stage. This supports hypothesis 2 of the study.

### Hypothesis 3.

Both groups of businesses prefer internal resources than debt and, as a final resort, equity when deciding on the capital structure.

As discussed above in 7.6 and 7.11 the finance behaviour adopted by both groups of businesses is in line with the Pecking Order Hypothesis. The business owners, among both groups, were able to raise the start-up capital through their informal sources and the formal sources were only resorted to where an informal source was not available. Both



groups of business owners had similar reasons for preferring to use a particular or a combination of sources. Also the problems faced by both groups in raising capital were not significantly different among the two groups.

#### **Hypothesis 4.**

Family plays a more significant role in mobilising financial support at the start-up stage of the immigrant-owned businesses than in indigenous-owned businesses.

The empirical evidence gathered confirms that the Pakistani-immigrant community has developed a group solidarity and cohesiveness in the form of a *biraderi*. At the time of partition (India and Pakistan) in 1947, among others, large number of Punjabis and Mirpuris came to the United Kingdom. They arrived here in search of work with the intention of returning home after saving from work in the UK. However, as time progressed, their families, relatives, and next of kin also joined them in the UK. The information supplied by the first batch of migrants to those back home also inspired them to join the others. They all supported each other, firstly as men finding work for their fellow *birader* and at a later stage upon the arrival of families the community firmly established itself as one of the major groups of migrants in the UK.

The initial family financial support started from Pakistan when the amounts were raised to make the travel arrangements to the UK. The newly arrived were supported by their *biraders* who found jobs for them, and provided lodging. When the new arrival settled he then started to send money back home to pay for the others to join him.

Due to a range of differences - religion, education, language, colour and race - not all were readily accepted into the UK host society. As a result of this failure in assimilation into the host society immigrant group solidarity became even stronger due to their feelings of being marginalised. As the community grew in numbers, its needs were satisfied by fellow migrant business owners, whether it was import and distribution of food, ladies' clothes, religious books, or travel arrangements. These services provided further ethnic enclave economy opportunities, discussed in the next section.

Any attempt to explain the success of business enterprise among a certain immigrant group must take into account cultural institutions, such as those providing for savings and credit, within the immigrant communities. The role of such economic institutions, which certain groups bring from their country of origin, has been stressed by Light (1972) in his work explaining the over-representation in small business, especially retail, of Chinese and Japanese in the United States. Evidence of the use of ROSCAs to set up businesses in Britain is provided by Werbner (1981). Culturally specific economic institutions such as ROSCAs continue to flourish among the Pakistanis in Britain. These are known as *kommitti*. The pooling of capital, and the giving of friendly loans were popular at start-up. Once businesses were established the more formal sources were being preferred to *kommitti*. The respondents maintained that it was mainly the women who are the members of such associations, and that it is not prevalent among business owners, who are largely male. This is corroborated by Shaw's (1988) study of Pakistanis in Oxford, where it is reported that in the 1960s Pakistani men bought their houses outright by paying in cash raised through *kommitti* rather than taking out a mortgage.

ROSCAs may be seen as indicative of the continuing significance of ethnicity and ethnic solidarity in the migrant communities. These flourish because close friendships and social networks based on mutual trust continue to be confined to narrowly defined *biraderi*. The divisions also exist among women where only Punjabi-speaking women are encouraged to join the *kommitti*.

### **Hypothesis 5.**

Pakistani-immigrant-owned businesses serve the ethnic enclave economy from where they also raise informal capital through community-based sources, whereas indigenous businesses serve the open market, making it easier for them to access formal sources of finance.

The continuing apartness among Pakistanis is nourished by cohesive forces of communal self-identity, underpinned by religion and other cultural institutions imported from the homeland and further cemented by consciousness of a hostile surrounding world. Within this encapsulation an environment is created which is to some degree protected from the non-Pakistani external world, where insiders can define their own goals and where social and economic transactions can be conducted on members' own terms. This is substantially true of the entrepreneurial sphere where on the basis of 'ethnic trust' (Werbner 1984) people will lend money to fellow members on preferential terms, buy and sell from one another and exchange business information. However, the fact of this self-help community is that Pakistani businesses provided a focused service to their fellow migrant customers only. These businesses were not set up as main-stream businesses to serve the open market. The entrepreneurial thought at the inception of the business was to serve one's fellow country-men. This is a fundamental contrast to the



ways indigenous businesses were set up, where the services of a travel agent were marketed to customers in the wider market place. This difference also had an effect on the post start-up size of businesses among the both groups. The indigenous businesses grew faster and larger, whereas Pakistani businesses remain encapsulated in their ethnic niche.

## 8.5 Summary

The objective in this chapter was to answer the research question and test the hypotheses based on evidence gathered from the fieldwork. The chapter was divided into five sections reporting on the capital structures, finance behaviour, role of family and community networks, and ethnic enclaves and solidarity. The empirical evidence gathered provided the answer to the research question according to which there are more similarities among Pakistani-immigrant and indigenous businesses than there are differences. The differences, and the role of *biraderi* and *kommitti*, were discussed. The five hypotheses of the study were tested and confirmed. A comparative model of capital structures of Pakistani-immigrant and indigenous small businesses was developed to highlight the similarities and differences among the businesses owned by both groups.

The next chapter summarises the findings of the study, highlights its limitations, and outlines opportunities for further research in small business.

## **Chapter 9**

### **Conclusion**

#### **9.0 Introduction**

This chapter is divided into six sections. The first section presents a brief summary of the findings. The limitations of the study are discussed in the second section. The third section highlights the contributions made by this research. The generalisability of research findings is outlined in the fourth section. The fifth section discusses the policy issues. Finally, future research directions are presented in the sixth section.

#### **9.1 Summary of the Findings**

Pakistani-immigrant and indigenous businesses were set up on average with £20,000 as start-up capital. This amount was raised through informal and formal sources of finance. In the case of Pakistani-immigrant businesses the post start-up capital was £15,000, compared with the £55,000 invested by the indigenous businesses. The informal sources used by the Pakistani businesses at the start-up stage included personal savings, *kommitti*, wife's savings, parents, and friends. The formal sources used at this stage included bank overdraft, bank loan, mortgage and other business partners. The informal sources of capital used at the growth stage included personal savings, wife's savings and other family members.

The indigenous businesses made use of personal savings, wife's savings, and members of other family, as informal sources of start-up capital. The formal sources included bank

loan, bank overdraft, mortgage, and business partner. The informal sources used at the growth stage, by indigenous businesses, included personal savings, wife's savings, and members of other families.

Both groups made use of the same formal sources of capital: supplier credit, bank loan, bank overdraft, and mortgage, at the growth stage of the business. Pakistani businesses preferred bank overdraft over bank loan. This behaviour was adopted due to the risk-averse nature of business owners, and the bank overdraft was available without having to present business plans and cash flow, and it was of a short-term nature compared to a bank loan. The cost of a bank overdraft was considered lower than a bank loan by the Pakistani-immigrant businesses.

Both groups of businesses used supplier credit at the maturity stage of the business as the main source of capital. Supplier credit was granted under a Bank Settlement Plan (BSP) set up by the International Air Transport Association (IATA). Our study reports that supplier credit plays a significant role as a source of finance at the growth and maturity stages of the business operating in the travel industry. Not only was this credit provided by the supplier (IATA) without the business having to request it, but the business earned interest on the sums deposited in their bank accounts. In that, it is a unique type of supplier credit, but nonetheless a very important short-term finance. It needs to be stressed here that previous researchers (Werbner 1984, 1990; Deakins et al 1992; Jones et al 1994) have, somewhat in a sparse manner, reported on the role of supplier credit as a form of start-up capital, whereas our study confirms the role of supplier credit as an



important and widely used source of finance for both groups at the growth and maturity stages.

Specific differences occurred between the groups in the use of informal sources of finance. Pakistani-immigrant businesses, at start-up, used *kommitti*, parents, and friends in addition to personal savings, and wife's savings. The indigenous businesses, at the start-up, used personal savings, wife's savings, and members of other families. The other family members as a source of finance were only used by the Pakistani-immigrant businesses at the growth stage, whereas the indigenous businesses resorted to members of other families at the same stage. In addition, at the growth stage both groups used the owner's personal savings and his wife's savings.

No specific differences in the use of formal sources of finance occurred between the groups. Supplier credit as a source of capital was used by both groups of businesses at the growth and maturity stages. In percentage terms both groups of businesses used the same percentage of supplier credit at the post start-up stage of the business. The owners of both groups of businesses felt that the banks asked for too much information which took a lot of time to prepare and was costly. Pakistani-immigrant businesses were not disadvantaged in any way when seeking bank finance, compared with the indigenous businesses. However, the business owners of both groups felt that the cost of bank finance was high since they had to spend time and money in preparing the information requested by the bank in order to consider their application for funds. The Pakistani-

immigrant business owners were very wary of the interest rates and were risk-averse to taking a loan, unless as a last resort.

Informal capital was interest-free for both groups, and the repayment was fixed by mutual agreement between the lender and the business owner. The Pakistani-immigrant business owners preferred to raise capital from informal sources since the total cost of raising capital from this source was lower than from formal sources. In percentage terms the Pakistani-immigrant businesses raised 83.3 percent of the total start-up capital from the informal sources compared to 56 percent raised by the indigenous businesses. The remaining amounts were raised from formal sources. The reasons stated by both groups for preferring informal sources included ease of availability, suitable terms of repayment, less or no information sought by the lender, no collateral being asked, and the low cost.

Both groups at the start-up and growth stage used personal equity in the form of personal savings and wife's savings, followed by debt in the form of a bank overdraft and bank loan and finally external equity from a business partner. Personal equity was preferred, by both groups, over debt due to the risk-averse behaviour of business owners, its cost, and the ease with which informal finance was available. Debt was preferred over external equity in order to avoid losing control over the operations of the business, restricting freedom, and dilution of interest. Therefore both groups of businesses adopted a finance behaviour which was in line with the Pecking Order Hypothesis.

Bank loans and overdrafts were equally accessible for both groups, and the lower tendency by immigrant businesses to use this source is more the result of the owners'

reluctance than the bankers'. Informal sources were more accessible for immigrant than for indigenous businesses. Since the formal sources were equally accessible by both groups it is easier for immigrant than for indigenous group to obtain start-up finance. This finding raises a question mark on the need for special assistance for immigrant groups.

The relevance of Pecking Order Hypothesis theory also raises questions about the cost-effectiveness of initiating any government intervention in the supply of capital to small businesses, in particular immigrant businesses. Our study shows that formal finance was available to both groups, yet the business owners, in particular Pakistani-immigrants, preferred to use informal finance followed by formal finance. Given this situation, the case for special assistance to the immigrant businesses is highly questionable, and if formal intervention schemes are considered necessary they may only have a political rather than an economic effect.

Therefore it can be concluded from the above that the financial structures of immigrant and indigenous businesses are not as different as the literature has suggested. Researchers such as, Aldrich et al (1980, 1981), Wilson and Stanworth (1987), Jones and McEvoy (1992), Curran and Blackburn (1993), Jones, McEvoy and Barrett (1994), and Blackburn (1993, 1994), have focused on racial, sociological, and business experience issues of ethnic groups. These researchers have studied Asian businesses and their funding practices with an emphasis on bank finance and their relationships with the high street banks. The most comprehensive study addressing the financial structures of non-White



and White businesses has been by Jones et al (1994). They did not specify in their study which group of Asians they studied whether East African Asians, Indians, Bangladeshis, or Pakistanis. Furthermore, the researchers have studied Asians as one homogenous group, apart from Curran and Blackburn (1993), and Blackburn (1993, 1994), who studied Bangladeshis as Asians, and assumed that their experiences, in particular raising finance, must be the same among all Asian immigrants - which obviously is not the case. Our study is the first to report on the sources of finance used by Pakistani-immigrant businesses and compares these with the indigenous small businesses in the UK. The comparative matched sample approach, in spite of its limitations, has shown that differences of origin and culture do not have as important an effect on sources of finance as suggested by the above studies. The impact of the common environment appears to have been more important than that of the differing origins. However, if other immigrant groups such as Sindhis, or Bangladeshis were compared against indigenous businesses the results might be different (also see 9.2).

It is possible that the fact that the two samples are not very well-matched, in terms of size or diversity of market, but that the sources of finance are nevertheless similar, suggests that a more closely-matched sample would show that small businesses in the two groups would have even more similar financial structures.

The Pakistani-immigrant businesses were supported by their community under the principal of reciprocity called *atta satta*. This meant that if one took a favour from a fellow member of a *biraderi* at some time in the future he is expected to return the favour

by doing the same or more as a favour in return to the member(s) of *biraderi*. This system was imported from their communities in Pakistan and has worked both ways, for example a favour done in Pakistan may be returned in the UK or vice versa.

A form of ROSCA called *kommitti* was organised by women in the community. The savings from *kommitti* and other income generated from activities such as stitching clothes at home, frying food for take-away restaurants, and outdoor catering was used to support their family and at times the money was given to the husband to invest in the business.

The literature on Asian businesses pays considerable attention to the pooling of capital through the traditional extended family (Werbner 1984; Aldrich 1986; Light and Bonacich 1988; Wilson and Stanworth 1987; Gretton 1988; McGoldrick and Reeve 1989; Deakin et al 1992; Jones et al 1992; Jones and McEvoy 1994; Curran and Blackburn 1993; Blackburn 1993, 1994) but completely overlooks the role played by the nuclear family. Our research discovered that the role of the nuclear family was very prominent in both groups. The wife of the business owner contributed to the success of the business in one way or another. For example in the case of Pakistani-immigrant businesses the wife had raised money through her activities at home and savings through *kommitti*. In the case of an indigenous entrepreneur the wife had undertaken a part-time job to manage the household. The extended family played a role in mobilising support for the success of the business. In the case of Pakistani businesses the *biraderi* and in the case of indigenous businesses the members of other families had played an important role. The case study

evidence shows that in-laws were reported by the respondents as members of other families, but the survey data does not give detailed information as to who were considered as members of other families - an assumption is made that it is the same as reported in the case studies.

It is widely believed that ethnic entrepreneurs rely heavily upon the family for cheap and loyal labour (Wilson and Stanworth 1986; Ward 1990; Waldinger et al 1990; Ram and Holiday 1992; Jones and McEvoy 1992; Jones, McEvoy and Barrett 1994; Curran and Blackburn 1993; and Blackburn 1993, 1994). In general, family labour is important, not only for ethnic businesses, but for all small businesses (Scott 1989). Contrary to this view our findings show that both groups of business owners preferred to employ more non-family employees than family employees. Non-family employees had formal training in the travel industry, introduced new customers to the business, through their personal contacts, and were easier to manage. In particular, at the growth stage of the business, family labour was seen as a barrier to business growth by both groups, due to their lack of professional managerial skills. The existing literature addresses CTN, and manufacturing industry, as a sample for their studies and makes assumptions in generalising the findings of these studies to other industries. Our contention here is that such generalisations are inappropriate and great caution should be taken in relating conclusions drawn from one industry to the other.

The family played a minor role in the day-to-day operations of the business in both groups. However, in both groups, the nuclear family played a significant role in



mobilising support for the success of the business. The members of indigenous family were recruited in the business on the basis of their contacts for the business. Family-members were also employed in the Pakistani-immigrant businesses to perform menial tasks like opening and closing the premises, despatching the daily post, collection and delivery of documents, and such tasks.

In both cases, support from the nuclear family, and in particular from the wife, seems more important than from the extended family. This is particularly the case for the immigrant businesses, through ROSCAs, and the wife's earnings. The nuclear family had played an important role in financing the business at the start-up and growth stages in both groups. This finding adds significantly to the existing literature which primarily focuses on the role of the extended family and by-passes the very important contributions made by the nuclear family.

Networking for raising capital was important to both groups of businesses, but more so for the immigrant businesses. Three different types of networks - personal, symbolic, and institutional - were identified. Personal and institutional networks were common among both groups. The symbolic networks were specific to Pakistani-immigrant businesses which were nurtured on the basis of *biraderi* and *atta satta*. Such networks also had members in Pakistan International Airlines (PIA) which was the main carrier to Pakistan for these travel agents. The employees of PIA assisted these travel agents by offering professional favours based on the principal of reciprocity. This provided a supportive

environment where the supplier (PIA) was responsive to the needs of Pakistani travel agents.

The Pakistani businesses served a different market from the indigenous businesses. Pakistani businesses operated in an ethnic enclave (Wilson and Portes 1980), serving primarily immigrant customers. Their relationships with the customers were based on ethnicity and roots back home in Pakistan. These entrepreneurs had used their language, the cultural barriers of host society, and ethnic alliances, based on *biraderi*, to gain access to their customers. They employed fellow migrant workers at low wages as their labour force due to their weakness in speaking English, and lack of local knowledge, which were shared by their customers with similar backgrounds. Aldrich (1981, 1985) is supported here in that this also posed a commercial disadvantage whereby these businesses were segregated and were shielded against the competition from the mainstream marketplace dominated by the indigenous entrepreneurs. Furthermore, this restricted Pakistani-immigrant businesses from expanding into a wider marketplace, whereas the indigenous businesses served a wider market which constituted mainly the indigenous population and some immigrant customers, including Pakistani-immigrants. They employed White employees and competed in the wider market. Our study attempts to overcome the criticism of the ethnic enclave theory - that it only studies businesses in a particular point in time as opposed to throughout the life-cycle - by studying the capital structures throughout the life-cycle of the business.

Unlike the Chinese and Japanese immigrants in the USA, observed by Light (1972), who depended at first on an exclusively ethnic clientele and only later branched out to a wider

market, Pakistani businesses have failed to branch out to the wider market place. The reason for this failure is suggested by the explanation provided by Mr Ali (Case B), and Mr Shah (Case D) during the interview, that they look forward to retiring and their children, with British educational qualifications, can look after themselves. They did not show any entrepreneurial aspiration to expand the business further. Our study concentrated on immigrant business owners who had migrated to the UK in the early 1960's for economic reasons with a view to return home with their savings from working in the UK. Due to their dreams of economic prosperity not materialising through employment, in the 1980's they entered the self-employment market and at present do not have any aspirations, as stated above, to expand the business into the wider economy. Therefore, the business owners do not see it as a failure on their part for not being able to grow as fast or as much as the indigenous businesses. This contradicts the findings of a study conducted by Aldrich (1986) and confirms an assumption made by Ram (1992).

Our study fills the existing gaps on four fronts in the small business finance literature. Firstly, it relates the theory of capital structure - Pecking Order Hypothesis - to the immigrant small business sector in the UK throughout their life-cycle. Secondly, it compares the capital structures of Pakistani and indigenous small businesses, throughout their life-cycle, by exploring the sources of finance, informal and formal, used in forming the capital structures. The study is unique in that it reports on the average total capital required to start-up the business and the average post start-up capital invested by both groups of businesses. Thirdly, it uses a sample from a service industry which has



previously not been studied. Finally, the study identifies the role played by the networks in the provision of capital and the amounts raised through each network.

## **9.2 Limitations of the Research**

Although the study is the first of its kind in reporting on the capital structures of the Pakistani-immigrant and indigenous businesses it has certain limitations. Firstly, the sample studied is not matched in that indigenous businesses are bigger in size and had been established longer than the Pakistani-immigrant businesses. As a result, the study is not about businesses of similar size, which may have an important impact on the capital structures of the business. Secondly, both groups of businesses are only common in terms of the travel trade and there was not found to be anything else which could be similar among the groups. For example both groups were concentrated in different geographic areas, served different markets, different destinations and had very different customers. Thirdly, the role of supplier credit is specific to travel agents only and if we had chosen a different industry the results might have been very different. Fourthly, our study lacks exact figures we used averages and ranges to report on the start-up amounts and post start-up investments. Fifthly, the sample of the study is based on Pakistani Punjabis, any other minority group of Pakistani origin such as Pathans, and Sindhis may be very different in their business-finance practices. Lastly, our study focused exclusively on the sources of finance and did not look at other factors of employment, customer deposits, or payments received in advance - which may also have an impact on the formation of the capital structures.

### **9.3 Contributions of the Research**

Despite the several limitations discussed above, the researcher believes that this research has made considerable contributions to knowledge in general and specifically in the field of immigrant small-business finance behaviour. Researchers, in the past, studied immigrant businesses from a socio-cultural point of view and did not make any attempt to undertake a more focused comparison on a specific issue such as capital structures, between a particular immigrant group and the indigenous group. This research attempted to move away from the issues discussed and re-discussed since 1978 by the ethnic-business researchers. Therefore the study is focused on the capital structures of two specific groups of business owners. Our study has contributed to establishing an understanding of the finance practices to the extent where it can challenge the conventional wisdom of ethnic minority businesses being deprived of finance and can support the more recent but somewhat sparse view of their creditworthiness.

There is a lack of literature which relates the theory of finance to immigrant-owned businesses and compares these with the indigenous businesses. Our study successfully demonstrates the application of Pecking Order Hypothesis, to both immigrant and indigenous groups of business owners.

The finance practices of an immigrant group have not been previously discussed as extensively as by this study. Most studies about the ethnic groups have focused on Asians as a homogenous group rather than as community with different groups within it - and the same treatment has been given to Afro-Caribbean's.

The findings of this research offer significant insights into the capital structures of Pakistani-owned businesses and establish a basis for future research into other immigrant groups and indigenous businesses.

The methodological approach adopted has also ensured that the findings of the study are not distorted by the methodology overriding the objectives of the study. Our research has attempted to combine qualitative and quantitative approaches, both in its data collection techniques and data analysis.

#### **9.4 Generalisability of the Research Findings**

To make a claim that the findings of this research are applicable across a wide range of small businesses would be misleading and inappropriate. Our claim here is that the findings of this study are specifically applicable to the groups studied only and no claim is made to apply or even extend these findings to other groups of business owners whether immigrants or indigenous within or outside the United Kingdom, unless further research is conducted. Also, our findings are specific to one service industry - travel agents - and may not be applicable to the other types of businesses operating within the same or different industries. For example with data collected from "hotels" as a sample we may have concluded different results. Furthermore, the methodology adopted may also restrict the general applicability of our study in that if one were to keep all other factors constant and adopt a more quantitative methodology only, for example balance sheet analysis through secondary data, the findings might show a very different picture, since what goes



on on the ground in small businesses may be different from what is being reported for statutory company law regulations.

### **9.5 Policy Issues**

From the end of World War II until the late 1960s, successive British governments sought to promote large businesses to take advantage of the economies of scale and scope inherent in their size. Since the late 1960s and continuing to the present, both Labour and Conservative national administrations have adopted specific programme to assist small businesses. Although a wide range of national government assistance programmes for small businesses exists, there has been no statutory legislation that formalises these programmes or provides a legal justification for the support of small businesses.

In particular, the small business policy has had no impact on either the formation or the growth rates of ethnic minority businesses (Waldinger et al 1990). Despite the plethora of small business measures introduced by governments since the 1960s, none had been designed specifically for the needs of ethnic firms until the early 1980s. In 1986 the government launched an initiative aimed at providing advice and other business development services to Black minorities in London, Birmingham, and Manchester. These activities included private sector contributions of counselling and other services.

Ethnic entrepreneurs are likely to encounter legal obstacles to the formation and operation of small firms. Licences are required for many of the business lines in which ethnic businesses are quick to emerge. The recent move by the Civil Aviation Authority to

introduce an Air Tours Operators Licence (ATOL) is seen as a latest example of this trend affecting ethnic travel agents in particular. Traditionally, the food and beverage trade has been an example of this tendency. This is not to argue that small firms should be given a free hand, but that the objective of policy should be to locate the appropriate balance between ease of access to business opportunities and protections for workers and consumers.

In the light of our research findings an understanding on the part of the ethnic entrepreneurs, through training, is required so that external equity can provide a faster growth and enable break away from the ethnic enclaves. Bankers can play a very important role in providing the entrepreneurs with the necessary details of various schemes through which the ethnic minority business can become a mainstream small business. Furthermore, a move to set up an Asian-oriented bank, (Sunday Press 1996), may even further segregate Asian businesses from mainstream indigenous businesses. This effort may not be beneficial for the immigrant community as a whole since the new wave of young British-born entrepreneurs are able to express their ideas better than their ancestors to the high street bankers, and may not prefer to set up as ethnic enclave dependent businesses.

In a more general sense, efforts to improve opportunities for all ethnic and minority groups to include business development policies, but only as part of a much larger effort to create jobs and provide relevant skills for the whole population, are much needed.

## **9.6 Further Research Directions**

Although this study has answered a very important question and thus filled a gap in the literature it also opens a number of avenues for future research. Firstly, the study only compared Pakistani-immigrant businesses with the indigenous businesses in the same industry, while there are other minority immigrant groups. According to Owen (1991), among South Asians Bangladeshis are the smallest community and after the South Asians there are some 1,57,000 Chinese in Great Britain, making them an important group to be studied. Then, of course there are other immigrant groups which can also provide us with an understanding of their business finance practices.

The same groups can be studied in different industries. The second generation of Pakistanis born in the UK can be compared with the indigenous businesses. The role of the nuclear family is very much embedded in the existing literature. However, further studies are needed to do justice to the contributions made by members of the nuclear family. Certain community practices found among the Pakistanis, for example the element of reciprocity, need to be explored further among the indigenous groups.

A further theme which emerges from our study is the reluctance of business owners to even consider the sale of a proportion of the equity of their business to outsiders. This is because the business owners, in both groups, believe this would lead to a dilution of their managerial control. Storey (1994) reported that where equity is shared, the business is likely to exhibit faster growth than where equity is held exclusively by the owner-



manager. However, he admits that it is not clearly demonstrated, thus implying the need for further research. Our view is that we need to conduct further research on various immigrant groups to establish an understanding of the general applicability of the Pecking Order Hypothesis to small businesses in general. Further research is also required in the applicability of the finance theory to small businesses, in particular capital structure issues and entrepreneurship, cost and availability of credit, direct and indirect costs of borrowing, access to private equity funds, and trade credit.

### **9.7 Summary**

This chapter gives the overall summary of the research findings. The research question answered shows that in fact both groups of businesses have very similar capital structures. The significant differences are that Pakistani businesses use larger amounts of informal sources of finance at the start-up stage of the business life-cycle and smaller amounts of formal sources of finance than indigenous businesses, whereas at the maturity stage they predominantly use formal sources of finance. The hypotheses of this research have been confirmed.

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**APPENDIX 1****INTERVIEW SCHEDULE****SECTION A            **Business Structure****

1. Name of the Company
2. Name of the person interviewed
3. Start date of the business
4. Type of legal entity the firm is:
  - a) Sole trader
  - b) Partnership
  - c) Registered Ltd. Company
  - d) Other (please specify)

State the number of partners or shareholders (if any):
5. Total number of employees:
  - a) Family Members
  - b) Non-Family Members
6. What are your educational qualifications?

**SECTION B:            **Sources of Finance and Networks****

7. What was the total amount with which you started this business?
8. How much did you personally invest in the business initially?
9. Did anyone else invest in this business?  
If yes how much,  
Who
10. Did you obtain any institutional finance. i.e. banks, relatives, friends?  
If yes who/where from?  
Transaction details (interest rate, collateral, payback period)
11. Did your immediate/extended family helped you financially?  
a) Who helped you?  
b) How did they help you?  
c) Transaction details (interest rate, collateral, payback period)
12. Did your biraderi/community/savings association helped you financially? if yes  
a) What was the exact nature of their help?  
b) Transaction details (interest rate, collateral, payback period)
13. Did you make use of any kommitti/credit rotating association in raising finance for the business? if yes please explain how did it work?
14. For the time when your business used your family/community money did you have to meet any expectations by the members of the family/community?
15. Did you have problems in getting the required finance? If yes explain;
16. What are the normal credit terms generally observed in your industry for credit given by your suppliers?
  - a) period the credit is received
  - b) usual discount terms/Incentives/Vouchers
  - c) do you get more or less credit than the usual for industry



17. How much have you personally invested in this business since it started?
18. Has there been any critical stages in the business financially, when you needed the money and it was not available or the lender wanted the money back and you could not pay back?
19. Do you have an overdraft facility?
20. Have you ever applied for a bank loan?
21. What has your experience been when applying for a bank loan?
22. Is there any detail you would like to tell me concerning the financing of business such as yours?

**APPENDIX 2**

<b>Section A: Business Background and Personal Details</b>
--

**A1.** Name of the business: \_\_\_\_\_

**A2.** Year business started: \_\_\_\_\_

**A3.** What is the legal ownership status of your business?

- a) Sole Trader [ ]
- b) Partnership [ ]
- c) Private Limited Company [ ]
- d) Other specify \_\_\_\_\_

**A4.** How many people are employed in your business?

- Family Members [ ]
- Non-Family Members [ ]

**A5.** Did you start the business, purchase or inherit it?

- a) Started it [ ]
- b) Purchased it [ ]
- c) Inherited it [ ]
- d) Other please specify: \_\_\_\_\_

**A6.** What is your highest educational qualification?

- a) 'O' & 'A' level or equivalent [ ]
- b) Bachelors Degree [ ]
- c) Masters Degree / PhD [ ]

**A7.** Are you/business a member of any professional body? Please tick below.

Yes [ ] No [ ]

If yes tick appropriately, you may tick more than one.

- a) IATA [ ] b) ABTA [ ]
- c) ATOL [ ] d) Other specify \_\_\_\_\_

**A8.** Approximately what percentage of your revenues do you earn from the following routes? tick the appropriate box.

	0-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71-80%	81-90%
Pakistan	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
India / Bangladesh	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Europe / Other	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

**A9.** Approximately what percentage of your turnover is earned from the following groups? Please tick the appropriate box.

	0-20%	21-40%	41-60%	61-80%	81-100%
Pakistanis	[ ]	[ ]	[ ]	[ ]	[ ]
Indians / Bangladeshis	[ ]	[ ]	[ ]	[ ]	[ ]
Europeans / Others	[ ]	[ ]	[ ]	[ ]	[ ]



**A10.** What do you think are the most important factors in attracting customers to your business? You may tick more than one of the below.

- a) Personal Contacts [ ]
- b) Recommendation by the Biraderi/community [ ]
- c) Advertising [ ]
- d) Pricing [ ]
- e) Good location [ ]
- f) High quality of Service [ ]
- g) Credit facility [ ]
- h) Others specify: \_\_\_\_\_

**A11.** Are your customers recommended by any of the following? You may tick more than one of the below.

- a) Friends/Relatives [ ]
- b) Members of your Biraderi/community [ ]
- c) Other Business Contacts (Specify) \_\_\_\_\_ [ ]

**A12.** What percentage of your business is owned by the following. Please tick appropriately.

- |                                      | up to 50% | Over 50% | 100% |
|--------------------------------------|-----------|----------|------|
| a) You                               | [ ]       | [ ]      | [ ]  |
| b) Wife                              | [ ]       | [ ]      | [ ]  |
| c) Your parents                      | [ ]       | [ ]      | [ ]  |
| d) Other members of your family      | [ ]       | [ ]      | [ ]  |
| e) Members of another family/Friends | [ ]       | [ ]      | [ ]  |
| f) Other partner(s)                  | [ ]       | [ ]      | [ ]  |
| g) Others specify _____              | [ ]       | [ ]      | [ ]  |

<b>Section B1: Sources Of Finance (Start-up stage)</b>
--

**B1.** When you started this business from which sources was finance raised? Please tick as applicable and write the percentage of total finance raised. Please ensure that the percentage figure at the bottom totals 100%.

- |  |     | %           |
|--|-----|-------------|
| a) Bank Loan                           | [ ] | [ ]         |
| b) Bank Overdraft                      | [ ] | [ ]         |
| c) Mortgage                            | [ ] | [ ]         |
| d) Leasing / Hire purchase             | [ ] | [ ]         |
| e) Supplier Credit                     | [ ] | [ ]         |
| f) Your personal savings               | [ ] | [ ]         |
| g) Your wife's savings                 | [ ] | [ ]         |
| h) Your Parents                        | [ ] | [ ]         |
| i) Other members of your family        | [ ] | [ ]         |
| j) Members of another family / Friends | [ ] | [ ]         |
| k) Other Partner(s)                    | [ ] | [ ]         |
| l) Family inheritance                  | [ ] | [ ]         |
| m) "Biraderi"/Community sources        | [ ] | [ ]         |
| n) "Kommitti"/Savings club             | [ ] | [ ]         |
| o) Other funds specify _____           | [ ] | [ ]         |
| <b>Total</b>                           |     | <b>100%</b> |

**B2.** Why did you choose the above ticked sources of finance in preference to the others? Please rank three most important reasons, 1 being the most important.

- a) Only source available [ ]
- b) Ease of availability [ ]
- c) Suitable terms [ ]
- d) Less information sought [ ]
- e) No collateral required [ ]
- f) Low cost [ ]
- g) Others specify \_\_\_\_\_

**B3.** How much loan did your business have to borrow when it started? Please tick one of the below.

- a) No Debt [ ]
- b) Up to 4,999 [ ]
- c) £5,000 to 9,999 [ ]
- d) £10,000 to 14,999 [ ]
- e) £15,000 to 19,999 [ ]
- f) £20,000 to 24,999 [ ]
- g) £25,000 to 29,999 [ ]
- h) £30,000 to 34,999 [ ]
- i) £35,000 to 39,999 [ ]
- j) £40,000 or above specify \_\_\_\_\_

**B4.** Whom did you approach to obtain business finance when starting the business? Rank the following (1 being approached first). Do not rank the ones not contacted.

- a) High street bank [ ]
- b) Leasing/Hire purchase Co. [ ]
- c) Finance Co/institution (Building society, Loan Co) [ ]
- d) Small bus. adv. Centre/Enterprise council (TEC) [ ]
- e) Supplier Credit [ ]
- f) Your personal savings [ ]
- g) Your wife's savings [ ]
- h) Your Parents [ ]
- i) Other members of your family [ ]
- j) Members of another family / Friends [ ]
- k) Other Partner(s) [ ]
- l) Family inheritance [ ]
- m) "Biraderi"/ Community sources [ ]
- n) "Kommitti"/Savings Club [ ]
- o) Others specify \_\_\_\_\_

**B5.** Was collateral required on the finance raised for starting the business?

- YES [ ] *If yes specify below:* NO [ ]
- a) Fixed Collateral (House, Business Premises) [ ]
  - b) Guarantee from within Biraderi / Community Sources [ ]
  - c) From Outside Biraderi / Community Sources [ ]

**B6.** How much of your own finance did you have to invest in starting the business? Please tick one box only.

- a) No Equity [ ]
- b) Up to 4,999 [ ]
- c) £5,000 to 9,999 [ ]
- d) £10,000 to 14,999 [ ]
- e) £15,000 to 19,999 [ ]
- f) £20,000 to 24,999 [ ]
- g) £25,000 to 29,999 [ ]
- h) £30,000 to 34,999 [ ]
- i) £35,000 to 39,999 [ ]
- j) £40,000 or above specify \_\_\_\_\_

**B7.** Did you face problems in obtaining the finance for starting the business?

Yes [ ] No [ ]

*If yes, what was the nature of these problems? Please tick the problems faced only.*

- a) Insufficient documentation [ ]
- b) Lacked security for a loan [ ]
- c) Bank did not understand my business [ ]
- d) Size of my business was too small [ ]
- e) Lack of track record in business [ ]
- f) Mistrust/prejudice [ ]
- g) Lack of Community/Club support [ ]
- h) Lack of family/Relatives support [ ]
- i) Others \_\_\_\_\_ [ ]

*How did you overcome these problems? Briefly state your main solution.*

\_\_\_\_\_

**B8.** What payment terms were you offered by your supplier of tickets (IATA, Airline Co, Other travel agent) when starting the business?

- a) Cash in advance [ ]
- b) Cash on delivery [ ]
- c) Advance rolling deposits [ ]
- d) Credit period [ ]

Please state how many weeks credit was allowed? \_\_\_\_\_

**B9.** What was the approximate gross first year turnover of your business?

\_\_\_\_\_

<b>Section B2: Sources Of Finance Since Start-up stage</b>
--

**B10.** Since starting which sources have you used to finance your business? Please tick as applicable and write the percentage of total finance raised. Please ensure that the percentage figure at the bottom totals 100%.

- |  |     | %           |
|--|-----|-------------|
| a) Retained Profits                    | [ ] | [ ]         |
| b) Bank Loan                           | [ ] | [ ]         |
| c) Bank Overdraft                      | [ ] | [ ]         |
| d) Mortgage                            | [ ] | [ ]         |
| e) Leasing / Hire purchase             | [ ] | [ ]         |
| f) Supplier Credit                     | [ ] | [ ]         |
| g) Your personal savings               | [ ] | [ ]         |
| h) Your wife's savings                 | [ ] | [ ]         |
| i) Your Parents                        | [ ] | [ ]         |
| j) Other members of your family        | [ ] | [ ]         |
| k) Members of another family / Friends | [ ] | [ ]         |
| l) Other Partner(s)                    | [ ] | [ ]         |
| m) Family inheritance                  | [ ] | [ ]         |
| n) "Biraderi"/ Community sources       | [ ] | [ ]         |
| o) "Kommitti"/ Savings Club            | [ ] | [ ]         |
| p) Other funds specify _____           | [ ] | [ ]         |
| <b>Total</b>                           |     | <b>100%</b> |



**B11.** Why did you choose the above ticked sources of finance in preference to the others? Please rank the three most important reasons, 1 being the most important.

- a) Only source available [ ]
- b) Ease of availability [ ]
- c) Suitable terms [ ]
- d) Less information sought [ ]
- e) No collateral [ ]
- f) Low cost [ ]
- g) Others specify \_\_\_\_\_ [ ]

**B12.** How much loan did your business have to borrow since it started? Please tick one of the below.

- |                      |     |                                   |     |
|----------------------|-----|-----------------------------------|-----|
| a) No Debt           | [ ] | b) Up to 4,999                    | [ ] |
| c) £5,000 to 9,999   | [ ] | d) £10,000 to 14,999              | [ ] |
| e) £15,000 to 19,999 | [ ] | f) £20,000 to 24,999              | [ ] |
| g) £25,000 to 29,999 | [ ] | h) £30,000 to 34,999              | [ ] |
| i) £35,000 to 39,999 | [ ] | j) £40,000 or above specify _____ | [ ] |

**B13.** Did you have an order of priority when raising finance for business growth /expansion? Rank your order of priority 1 being most preferred. Do not rank the ones not contacted.

- a) High street bank [ ]
- b) Leasing/Hire purchase co. [ ]
- c) Finance Co/institution (Building Society, Loan Co) [ ]
- d) Small bus. adv. Centre/Enterprise council (TEC) [ ]
- e) Supplier Credit [ ]
- f) Your personal savings [ ]
- g) Your wife's savings [ ]
- h) Your Parents [ ]
- i) Other members of your family [ ]
- j) Members of another family/Friends [ ]
- k) Other Partner(s) [ ]
- l) Family inheritance [ ]
- m) "Biraderi"/Community sources [ ]
- n) "Kommitti"/Savings club [ ]
- o) Others specify \_\_\_\_\_ [ ]

**B14.** Was collateral required on finance raised for business growth / expansion?  
 YES [ ] NO [ ]

*If yes specify below:*

- a) Fixed Collateral (House, Business Premises) [ ]
  - b) Guarantee from within Biraderi / Community Sources [ ]
  - c) From Outside Biraderi / Community Sources [ ]
- Please specify: \_\_\_\_\_

**B15.** Did you face problems in obtaining the finance for business growth / expansion?  
 Yes [ ] No [ ]

*If yes, what was the nature of these problems? Please tick the problems faced only.*

- a) Insufficient documentation [ ]
- b) Lacked security for a loan [ ]
- c) Bank did not understand my business [ ]
- d) Size of my business was too small [ ]
- e) Lack of track record in business [ ]
- f) Mistrust/prejudice [ ]
- g) Lack of Community/Club support [ ]
- h) Lack of family/Relatives support [ ]
- i) Others \_\_\_\_\_ [ ]

*How did you overcome these problems? Briefly state your main solution.*

---



---



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**B16.** How much of your own finance did you have to invest, excluding retained profits, in your business since it started? Please tick one box only.

- a) No additional Equity [ ]
- b) Up to 4,999 [ ]
- c) £5,000 to 9,999 [ ]
- d) £10,000 to 14,999 [ ]
- e) £15,000 to 19,999 [ ]
- f) £20,000 to 24,999 [ ]
- g) £25,000 to 29,999 [ ]
- h) £30,000 to 34,999 [ ]
- i) £35,000 to 39,999 [ ]
- j) £40,000 or above specify \_\_\_\_\_ [ ]

**B17.** How would you assess the total cost (including time, obligation, hassle) to your business of the following? Please tick only those sources that you have made use of since starting the business. Do not tick the sources not used.

	Low	Medium	High
a) Retained Profits	[ ]	[ ]	[ ]
b) Bank Loan	[ ]	[ ]	[ ]
c) Bank Overdraft	[ ]	[ ]	[ ]
d) Mortgage	[ ]	[ ]	[ ]
e) Leasing / Hire purchase	[ ]	[ ]	[ ]
f) Supplier Credit	[ ]	[ ]	[ ]
g) Your personal savings	[ ]	[ ]	[ ]
h) Your wife's savings	[ ]	[ ]	[ ]
i) Your Parents	[ ]	[ ]	[ ]
j) Other members of your family	[ ]	[ ]	[ ]
k) Members of another family / Friends	[ ]	[ ]	[ ]
l) Other Partner(s)	[ ]	[ ]	[ ]
m) Family inheritance	[ ]	[ ]	[ ]
n) "Biraderi"/Community sources	[ ]	[ ]	[ ]
o) "Kommitti"/Savings Club	[ ]	[ ]	[ ]
p) Others specify _____	[ ]	[ ]	[ ]

**B18.** What is the total value of your business assets? Please tick one of the below.

- |                      |     |                              |       |
|----------------------|-----|------------------------------|-------|
| a) Up to 19,999      | [ ] | b) £20,000 to 39,999         | [ ]   |
| c) £40,000 to 59,999 | [ ] | d) £60,000 to 79,999         | [ ]   |
| e) £80,000 to 99,999 | [ ] | f) £100,000 or above specify | _____ |

**B19.** What payment terms your supplier of tickets (IATA, Airline Co, Other travel agent) have offered you since starting the business?

- |                             |     |
|-----------------------------|-----|
| a) Cash in advance          | [ ] |
| b) Cash on delivery         | [ ] |
| c) Advance rolling deposits | [ ] |
| d) Credit period            | [ ] |
- Please state how many weeks credit was allowed? \_\_\_\_\_

**B20.** What is the approximate gross annual turnover of your business?

\_\_\_\_\_

**B21.** Since starting the business have you had discussions with any of the following on financial matters of your business? Please tick the following as applicable.

- |                            |     |
|----------------------------|-----|
| a) Bank                    | [ ] |
| b) Accountant              | [ ] |
| c) Solicitor               | [ ] |
| d) Consultant              | [ ] |
| e) Employee                | [ ] |
| f) Business Association    | [ ] |
| g) Chamber of commerce     | [ ] |
| h) Enterprise council      | [ ] |
| i) Business Adv. Centre    | [ ] |
| j) Family                  | [ ] |
| k) Friends                 | [ ] |
| l) Relatives               | [ ] |
| m) Community Sources       | [ ] |
| n) Business Contacts       | [ ] |
| o) Business event          | [ ] |
| p) Social Association      | [ ] |
| q) Sports Association      | [ ] |
| r) Neighbourhood           | [ ] |
| s) "Kommitti"/Savings Club | [ ] |
| t) Others specify: _____   | [ ] |

Please turn over



**Section C:****General Issues**

**C1.** Who is your principal banker? Please tick as appropriate.

- a) NatWest [ ]
- b) Midland [ ]
- c) Lloyds [ ]
- d) Barclays [ ]
- e) Royal Bank of Scotland [ ]
- f) Bank of Ireland [ ]
- g) Others specify: \_\_\_\_\_ [ ]

**C2.** Are you satisfied with your bank? Please tick one of the below.

V. Satisfied [ ]                      Satisfied [ ]                      Unsatisfied [ ]

**C3.** Do you make use of any financial incentives offered by the local Training and Enterprise Council?

Yes [ ] Specify nature of incentives \_\_\_\_\_  
No [ ] Reasons \_\_\_\_\_

**C4.** Have you ever used any Government schemes to fulfil the financial needs of your business?

Yes [ ] Specify name of the scheme \_\_\_\_\_  
No [ ] Reasons \_\_\_\_\_

**Thank you for taking the time to complete this questionnaire.**

To ensure that you receive your copy of the final report please complete the below.

Name: \_\_\_\_\_

Company: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Phone number: \_\_\_\_\_

**Please return the questionnaire in the free post envelope provided.**



## Section A: Business Background and Personal Details

**A1.** Name of the business: \_\_\_\_\_

**A2.** Year business started: \_\_\_\_\_

**A3.** What is the legal ownership status of your business?

- a) Sole Trader [ ]
- b) Partnership [ ]
- c) Private Limited Company [ ]
- d) Other specify \_\_\_\_\_

**A4.** How many people are employed in your business?

- Family Members [ ]
- Non-Family Members [ ]

**A5.** Did you start the business, purchase or inherit it?

- a) Started it [ ]
- b) Purchased it [ ]
- c) Inherited it [ ]
- d) Other please specify: \_\_\_\_\_

**A6.** What is your highest educational qualification?

- a) 'O' & 'A' level or equivalent [ ]
- b) Bachelors Degree [ ]
- c) Masters Degree / PhD [ ]

**A7.** Are you/business a member of any professional body? Please tick below.

Yes [ ] No [ ]

If yes tick appropriately, you may tick more than one.

- a) IATA [ ] b) ABTA [ ]
- c) ATOL [ ] d) Other specify \_\_\_\_\_

**A8.** Approximately what percentage of your revenues do you earn from the following routes? Please tick the appropriate box.

	0-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71-80%	81-90%	91-100%
Pakistan	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
India / Bangladesh	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
Europe / Other	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

**A9.** Approximately what percentage of your turnover is earned from the following groups? Please tick the appropriate box.

	0-20%	21-40%	41-60%	61-80%	81-100%
Pakistanis	[ ]	[ ]	[ ]	[ ]	[ ]
Indians / Bangladeshis	[ ]	[ ]	[ ]	[ ]	[ ]
Europeans / Others	[ ]	[ ]	[ ]	[ ]	[ ]



**A10.** What do you think are the most important factors in attracting customers to your business? You may tick more than one of the below.

- a) Personal Contacts [ ]
- b) Recommendation by the Biraderi/community [ ]
- c) Advertising [ ]
- d) Pricing [ ]
- e) Good location [ ]
- f) High quality of Service [ ]
- g) Credit facility [ ]
- h) Others specify: \_\_\_\_\_ [ ]

**A11.** Are your customers recommended by any of the following? You may tick more than one of the below.

- a) Friends/Relatives [ ]
- b) Members of your Biraderi/community [ ]
- c) Other Business Contacts (Specify) \_\_\_\_\_ [ ]

**A12.** What percentage of your business is owned by the following. Please tick appropriately.

- |                                      | up to 50% | Over 50% | 100% |
|--------------------------------------|-----------|----------|------|
| a) You                               | [ ]       | [ ]      | [ ]  |
| b) Wife                              | [ ]       | [ ]      | [ ]  |
| c) Your parents                      | [ ]       | [ ]      | [ ]  |
| d) Other members of your family      | [ ]       | [ ]      | [ ]  |
| e) Members of another family/Friends | [ ]       | [ ]      | [ ]  |
| f) Other partner(s)                  | [ ]       | [ ]      | [ ]  |
| g) Others specify _____              | [ ]       | [ ]      | [ ]  |

<b>Section B1: Sources Of Finance (Start-up stage)</b>
--

**B1.** When you started this business from which sources was finance raised? Please tick as applicable and write the percentage of total finance raised. Please ensure that the percentage figure at the bottom totals 100%.

- |  |     | %           |
|--|-----|-------------|
| a) Bank Loan                           | [ ] | [ ]         |
| b) Bank Overdraft                      | [ ] | [ ]         |
| c) Mortgage                            | [ ] | [ ]         |
| d) Leasing / Hire purchase             | [ ] | [ ]         |
| e) Supplier Credit                     | [ ] | [ ]         |
| f) Your personal savings               | [ ] | [ ]         |
| g) Your wife's savings                 | [ ] | [ ]         |
| h) Your Parents                        | [ ] | [ ]         |
| i) Other members of your family        | [ ] | [ ]         |
| j) Members of another family / Friends | [ ] | [ ]         |
| k) Other Partner(s)                    | [ ] | [ ]         |
| l) Family inheritance                  | [ ] | [ ]         |
| m) "Biraderi"/Community sources        | [ ] | [ ]         |
| n) "Kommitti"/Savings club             | [ ] | [ ]         |
| o) Other funds specify _____           | [ ] | [ ]         |
| <b>Total</b>                           |     | <b>100%</b> |



**B2.** Why did you choose the above ticked sources of finance in preference to the others? Please rank three most important reasons, 1 being the most important.

- a) Only source available [ ]
- b) Ease of availability [ ]
- c) Suitable terms [ ]
- d) Less information sought [ ]
- e) No collateral required [ ]
- f) Low cost [ ]
- g) Others specify \_\_\_\_\_ [ ]

**B3.** How much loan did your business have to borrow when it started? Please tick one of the below.

- a) No Debt [ ]
- b) Up to 4,999 [ ]
- c) £5,000 to 9,999 [ ]
- d) £10,000 to 14,999 [ ]
- e) £15,000 to 19,999 [ ]
- f) £20,000 to 24,999 [ ]
- g) £25,000 to 29,999 [ ]
- h) £30,000 to 34,999 [ ]
- i) £35,000 to 39,999 [ ]
- j) £40,000 or above specify \_\_\_\_\_ [ ]

**B4.** Whom did you approach to obtain business finance when starting the business? Rank the following (1 being approached first). Do not rank the ones not contacted.

- a) High street bank [ ]
- b) Leasing/Hire purchase Co. [ ]
- c) Finance Co/institution (Building society, Loan Co) [ ]
- d) Small bus. adv. Centre/Enterprise council (TEC) [ ]
- e) Supplier Credit [ ]
- f) Your personal savings [ ]
- g) Your wife's savings [ ]
- h) Your Parents [ ]
- i) Other members of your family [ ]
- j) Members of another family / Friends [ ]
- k) Other Partner(s) [ ]
- l) Family inheritance [ ]
- m) "Biraderi"/ Community sources [ ]
- n) "Kommitti"/Savings Club [ ]
- o) Others specify \_\_\_\_\_ [ ]

**B5.** Was collateral required on the finance raised for starting the business?

- YES [ ] *If yes specify below:* NO [ ]
- a) Fixed Collateral (House, Business Premises) [ ]
  - b) Guarantee from within Biraderi / Community Sources [ ]
  - c) From Outside Biraderi / Community Sources [ ]

**B6.** How much of your own finance did you have to invest in starting the business? Please tick one box only.

- a) No Equity [ ]
- b) Up to 4,999 [ ]
- c) £5,000 to 9,999 [ ]
- d) £10,000 to 14,999 [ ]
- e) £15,000 to 19,999 [ ]
- f) £20,000 to 24,999 [ ]
- g) £25,000 to 29,999 [ ]
- h) £30,000 to 34,999 [ ]
- i) £35,000 to 39,999 [ ]
- j) £40,000 or above specify \_\_\_\_\_ [ ]



**B7.** Did you face problems in obtaining the finance for starting the business?

Yes [ ]

No [ ]

*If yes, what was the nature of these problems? Please tick the problems faced only.*

- a) Insufficient documentation [ ]
- b) Lacked security for a loan [ ]
- c) Bank did not understand my business [ ]
- d) Size of my business was too small [ ]
- e) Lack of track record in business [ ]
- f) Mistrust/prejudice [ ]
- g) Lack of Community/Club support [ ]
- h) Lack of family/Relatives support [ ]
- i) Others \_\_\_\_\_ [ ]

*How did you overcome these problems? Briefly state your main solution.*

---



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**B8.** What payment terms were you offered by your supplier of tickets (IATA, Airline Co, Other travel agent) when starting the business?

- a) Cash in advance [ ]
- b) Cash on delivery [ ]
- c) Advance rolling deposits [ ]
- d) Credit period [ ]

Please state how many weeks credit was allowed? \_\_\_\_\_

**B9.** What was the approximate gross first year turnover of your business?

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<b>Section B2:</b>	<b>Sources Of Finance Since Start-up stage</b>
--------------------	--

**B10.** Since starting which sources have you used to finance your business? Please tick as applicable and write the percentage of total finance raised. Please ensure that the percentage figure at the bottom totals 100%.

- |  |     | %           |
|--|-----|-------------|
| a) Retained Profits                    | [ ] | [ ]         |
| b) Bank Loan                           | [ ] | [ ]         |
| c) Bank Overdraft                      | [ ] | [ ]         |
| d) Mortgage                            | [ ] | [ ]         |
| e) Leasing / Hire purchase             | [ ] | [ ]         |
| f) Supplier Credit                     | [ ] | [ ]         |
| g) Your personal savings               | [ ] | [ ]         |
| h) Your wife's savings                 | [ ] | [ ]         |
| i) Your Parents                        | [ ] | [ ]         |
| j) Other members of your family        | [ ] | [ ]         |
| k) Members of another family / Friends | [ ] | [ ]         |
| l) Other Partner(s)                    | [ ] | [ ]         |
| m) Family inheritance                  | [ ] | [ ]         |
| n) "Biraderi"/ Community sources       | [ ] | [ ]         |
| o) "Kommitti"/ Savings Club            | [ ] | [ ]         |
| p) Other funds specify _____           | [ ] | [ ]         |
| <b>Total</b>                           |     | <b>100%</b> |



**B11.** Why did you choose the above ticked sources of finance in preference to the others? Please rank the three most important reasons, 1 being the most important.

- a) Only source available [ ]
- b) Ease of availability [ ]
- c) Suitable terms [ ]
- d) Less information sought [ ]
- e) No collateral [ ]
- f) Low cost [ ]
- g) Others specify \_\_\_\_\_

**B12.** How much loan did your business have to borrow since it started? Please tick one of the below.

- a) No Debt [ ]
- b) Up to 4,999 [ ]
- c) £5,000 to 9,999 [ ]
- d) £10,000 to 14,999 [ ]
- e) £15,000 to 19,999 [ ]
- f) £20,000 to 24,999 [ ]
- g) £25,000 to 29,999 [ ]
- h) £30,000 to 34,999 [ ]
- i) £35,000 to 39,999 [ ]
- j) £40,000 or above specify \_\_\_\_\_

**B13.** Did you have an order of priority when raising finance for business growth / expansion? Rank your order of priority 1 being most preferred. Do not rank the ones not contacted.

- a) High street bank [ ]
- b) Leasing/Hire purchase co. [ ]
- c) Finance Co/institution (Building Society, Loan Co) [ ]
- d) Small bus. adv. Centre/Enterprise council (TEC) [ ]
- e) Supplier Credit [ ]
- f) Your personal savings [ ]
- g) Your wife's savings [ ]
- h) Your Parents [ ]
- i) Other members of your family [ ]
- j) Members of another family/Friends [ ]
- k) Other Partner(s) [ ]
- l) Family inheritance [ ]
- m) "Biraderi"/Community sources [ ]
- n) "Kommitti"/Savings club [ ]
- o) Others specify \_\_\_\_\_

**B14.** Was collateral required on finance raised for business growth / expansion?  
 YES [ ] NO [ ]

*If yes specify below:*

- a) Fixed Collateral (House, Business Premises) [ ]
  - b) Guarantee from within Biraderi / Community Sources [ ]
  - c) From Outside Biraderi / Community Sources [ ]
- Please specify: \_\_\_\_\_



**B15.** Did you face problems in obtaining the finance for business growth / expansion?

Yes [ ]

No [ ]

*If yes, what was the nature of these problems? Please tick the problems faced only.*

- |    |                                     |     |
|----|-------------------------------------|-----|
| a) | Insufficient documentation          | [ ] |
| b) | Lacked security for a loan          | [ ] |
| c) | Bank did not understand my business | [ ] |
| d) | Size of my business was too small   | [ ] |
| e) | Lack of track record in business    | [ ] |
| f) | Mistrust/prejudice                  | [ ] |
| g) | Lack of Community/Club support      | [ ] |
| h) | Lack of family/Relatives support    | [ ] |
| i) | Others _____                        |     |

*How did you overcome these problems? Briefly state your main solution.*

---



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**B16.** How much of your own finance did you have to invest, excluding retained profits, in your business since it started? Please tick one box only.

- |    |                      |     |    |                                |     |
|----|----------------------|-----|----|--------------------------------|-----|
| a) | No additional Equity | [ ] | b) | Up to 4,999                    | [ ] |
| c) | £5,000 to 9,999      | [ ] | d) | £10,000 to 14,999              | [ ] |
| e) | £15,000 to 19,999    | [ ] | f) | £20,000 to 24,999              | [ ] |
| g) | £25,000 to 29,999    | [ ] | h) | £30,000 to 34,999              | [ ] |
| i) | £35,000 to 39,999    | [ ] | j) | £40,000 or above specify _____ |     |

**B17.** How would you assess the total cost (including time, obligation, hassle) to your business of the following? Please tick only those sources that you have made use of since starting the business. Do not tick the sources not used.

- |  | <b>Low</b> | <b>Medium</b> | <b>High</b> |
|--|------------|---------------|-------------|
| a) Retained Profits                    | [ ]        | [ ]           | [ ]         |
| b) Bank Loan                           | [ ]        | [ ]           | [ ]         |
| c) Bank Overdraft                      | [ ]        | [ ]           | [ ]         |
| d) Mortgage                            | [ ]        | [ ]           | [ ]         |
| e) Leasing / Hire purchase             | [ ]        | [ ]           | [ ]         |
| f) Supplier Credit                     | [ ]        | [ ]           | [ ]         |
| g) Your personal savings               | [ ]        | [ ]           | [ ]         |
| h) Your wife's savings                 | [ ]        | [ ]           | [ ]         |
| i) Your Parents                        | [ ]        | [ ]           | [ ]         |
| j) Other members of your family        | [ ]        | [ ]           | [ ]         |
| k) Members of another family / Friends | [ ]        | [ ]           | [ ]         |
| l) Other Partner(s)                    | [ ]        | [ ]           | [ ]         |
| m) Family inheritance                  | [ ]        | [ ]           | [ ]         |
| n) "Biraderi"/Community sources        | [ ]        | [ ]           | [ ]         |
| o) "Kommitti"/Savings Club             | [ ]        | [ ]           | [ ]         |
| p) Others specify _____                | [ ]        | [ ]           | [ ]         |



**B18.** What is the total value of your business assets? Please tick one of the below.

- |                      |     |                              |       |
|----------------------|-----|------------------------------|-------|
| a) Up to 19,999      | [ ] | b) £20,000 to 39,999         | [ ]   |
| c) £40,000 to 59,999 | [ ] | d) £60,000 to 79,999         | [ ]   |
| e) £80,000 to 99,999 | [ ] | f) £100,000 or above specify | _____ |

**B19.** What payment terms your supplier of tickets (IATA, Airline Co, Other travel agent) have offered you since starting the business?

- |                             |     |
|-----------------------------|-----|
| a) Cash in advance          | [ ] |
| b) Cash on delivery         | [ ] |
| c) Advance rolling deposits | [ ] |
| d) Credit period            | [ ] |
- Please state how many weeks credit was allowed? \_\_\_\_\_

**B20.** What is the approximate gross annual turnover of your business?

\_\_\_\_\_

**B21.** Since starting the business have you had discussions with any of the following on financial matters of your business? Please tick the following as applicable.

- |                            |     |
|----------------------------|-----|
| a) Bank                    | [ ] |
| b) Accountant              | [ ] |
| c) Solicitor               | [ ] |
| d) Consultant              | [ ] |
| e) Employee                | [ ] |
| f) Business Association    | [ ] |
| g) Chamber of commerce     | [ ] |
| h) Enterprise council      | [ ] |
| i) Business Adv. Centre    | [ ] |
| j) Family                  | [ ] |
| k) Friends                 | [ ] |
| l) Relatives               | [ ] |
| m) Community Sources       | [ ] |
| n) Business Contacts       | [ ] |
| o) Business event          | [ ] |
| p) Social Association      | [ ] |
| q) Sports Association      | [ ] |
| r) Neighbourhood           | [ ] |
| s) "Kommitti"/Savings Club | [ ] |
| t) Others specify: _____   | [ ] |

Please turn over



**Section C:****General Issues**

**C1.** Who is your principal banker? Please tick as appropriate.

- a) NatWest
- b) Midland
- c) Lloyds
- d) Barclays
- e) Royal Bank of Scotland
- f) Bank of Ireland
- g) Others specify: \_\_\_\_\_

**C2.** Are you satisfied with your bank? Please tick one of the below.

V. Satisfied  Satisfied  Unsatisfied

**C3.** Do you make use of any financial incentives offered by the local Training and Enterprise Council?

Yes  Specify nature of incentives \_\_\_\_\_

No  Reasons \_\_\_\_\_

**C4.** Have you ever used any Government schemes to fulfil the financial needs of your business?

Yes  Specify name of the scheme \_\_\_\_\_

No  Reasons \_\_\_\_\_

**Thank you for taking the time to complete this questionnaire.**

To ensure that you receive your copy of the final report please complete the below.

Name: \_\_\_\_\_

Company: \_\_\_\_\_

Address: \_\_\_\_\_

Phone number: \_\_\_\_\_

**Please return the questionnaire in the free post envelope provided.**



**APPENDIX 3**

August 1995

Cranfield School of Management  
Cranfield, Bedford  
England MK43 0AL  
Tel +44 (0) 1234 751122  
Fax +44 (0) 1234 751806  
Telex 826559 CITMAN G

Dear Business Owner\Manager,

A fortnight ago I sent you a questionnaire to complete which I have not received back. I enclose another copy of the questionnaire in case the first copy did not reach you.

I am conducting research into the capital structures of travel agents. I wish to examine the role of family and community networks in the supply of finance for small businesses. My aim is to identify the financial structures of these small businesses at various stages in their life cycle, with particular emphasis on the relative proportions of finance from family / 'informal' sources compared to finance from formal sources.

The results of this study, apart from adding to the knowledge of community networks, will also be of great practical use to travel agents and travel associations.

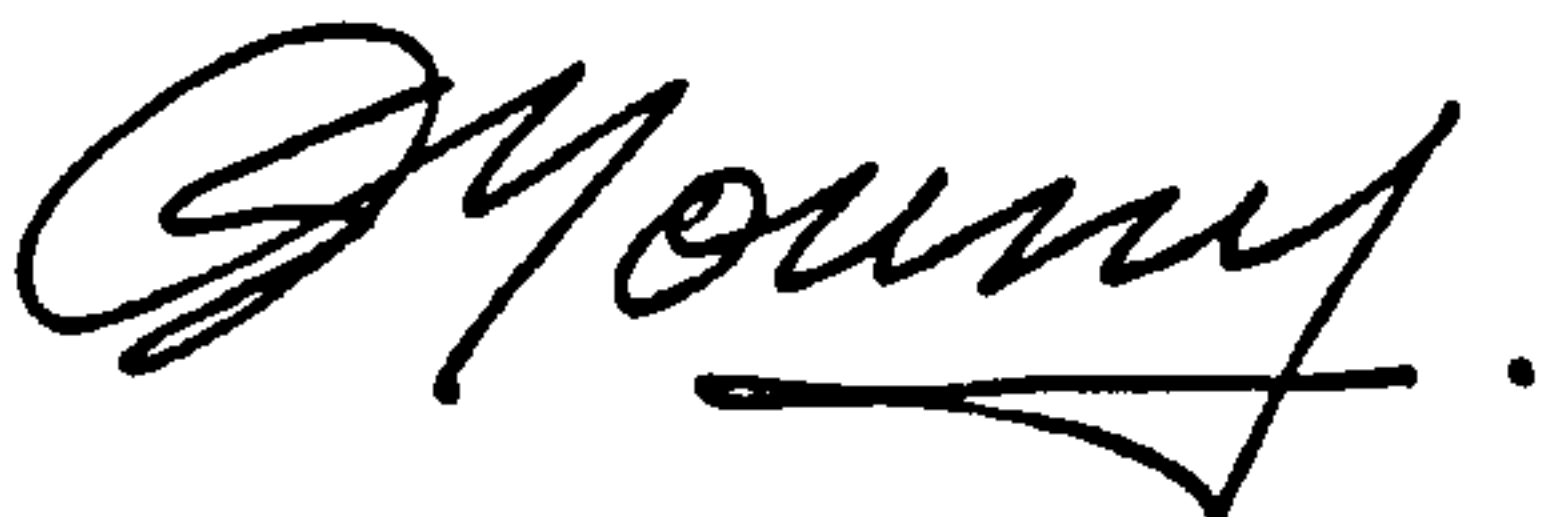
I assure you that the data collected will be treated confidentially and presented only in a summary form without the name or affiliation of the respondents.

Should you choose not to take part in this study please return the questionnaire to me with reasons for not taking part in the study. This will save me from contacting you after this letter. Please remember that it does not cost you anything to send back the questionnaire; a self-addressed pre-paid envelope is provided.

Should you wish to be part of the study without completing a questionnaire, please send back the questionnaire marked "available for an interview" and I will contact you for a mutually convenient time for an interview date.

I sincerely hope that you will be able to help by completing and returning the questionnaire.

Yours sincerely,



S Yousuf DMS, MBA, MCIM  
Doctoral student

Encl: Questionnaire and pre-paid envelope