View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Teeside University's Research Repository

BARRIERS FACED BY SMEs IN RAISING BANK FINANCE[1]

by

David Irwin

Irwin-Grayson Associates, Unit 3 Hindley Hall, Stocksfield, Northumberland, NE43 7RY

e: david@irwin.org, t/f: 020 7193 9984

Dr Jonathan M. Scott

Teesside University (*from September 2009*)

[1] Subsequently published as :

Irwin, D. and Scott, J.M. (2010) 'Barriers to raising bank finance faced by SMEs', *International Journal of Entrepreneurial Behaviour and Research*, 16(3): 245-259.

BARRIERS FACED BY SMALL AND MEDIUM-SIZED ENTERPRISES IN RAISING FINANCE FROM BANKS

ABSTRACT

Purpose: This paper explores some of the barriers faced by UK entrepreneurs in raising bank finance to support and grow their businesses, specifically the impact of personal characteristics (ethnicity, gender and education).

Methodology/Approach: The approach adopted for the research was a telephone survey of 400 small and medium-sized enterprises (SMEs) conducted by the Barclays Bank small business research team on behalf of the authors.

Findings: We find education appears to make little difference to sources of finance, except that those educated to Advanced level seem more likely to use friends and family and to remortgage their home. Not surprisingly, graduates have the least difficulty in raising finance. Perhaps surprisingly, it seems that women find it easier to raise finance than men, although other literature points towards women as 'discouraged borrowers', a theory developed by Kon and Storey (2003). The research appears to confirm that ethnic minority businesses, particularly black entrepreneurs, have the greatest problem in raising finance.

Research limitations/implications: The study is an important piece of research given the critical need of policy-makers to understand differentials between different types of entrepreneurs. It is brings new insights into its field – access to finance – and with respect especially to marginalised groups.

Originality/value of paper: The paper adopts a different approach with a large sample and robust analysis to explore a critical need-to-know area in a new way – both for policy-makers and academics in the field of SME finance.

Keywords: finance, SMEs, banks, gender, ethnicity, education

INTRODUCTION

'There is no shortage of private money seeking to invest in young companies, new research has found, throwing into question the Government's decision to invest hundreds of millions of public money to correct what it sees as market failure'. ('Don't mind the gap, it's a perception', Daily Telegraph, 1 Aug 06)

But we would argue that is the wrong conclusion – there may be large amounts of money seeking a home, but it is looking for opportunities with proprietary intellectual capital, exceptional management, a market that is not what equity investors quaintly call 'pre-revenue' and the chance of a high return. In our view, many groups of entrepreneurs, for a variety of reasons, still find it immensely difficult to raise the capital that they need. This paper explores one of the possible reasons – personal characteristics.

Banks remain the predominant suppliers of finance (Cosh and Hughes 2003), though there may be various financing constraints (Kotey 1999; Fraser 2005), which may include the current global liquidity crisis (Tyler 2007). Access to finance is influenced by funding preferences such as in the pecking order theory (Howorth 2001) or risk aversion of banks (except, until recently, to sub prime borrowers, where a 'fast buck' can be made). This risk aversion can lead to a preference to fund less risky ventures or 'better borrowers' (Cressy and Toivanen 2001), which may effectively exclude women and ethnic minorities who may not appear so credible to lenders. There is certainly evidence than ethnic minorities face difficulties raising finance (Ram and Smallbone 2001; Ram and Deakins 1996; Bank of England 1999), particularly African Caribbeans and Bangladeshis (Curran and Blackburn 1993) and an inclination, especially amongst South Asians, towards obtaining informal finance (Basu 1998). Other authors have found

differences between men and women (Carter and Rosa 1998) with evidence of discrimination (Ennew and McKechnie 1998). In the case of women and ethnic minorities, the belief that there is discrimination may lead potential borrowers not to seek loans because they are discouraged (Kon and Storey 2003) or simply fail to 'ask' for finance (Marlow and Carter 2006).

The paper follows on from the above cited literature and research conducted by the authors in the North East of England (REFERENCE REMOVED FOR REVIEW). In that paper, the authors investigated the importance of micro-finance in supporting small and medium-sized enterprises. We found that there had been little coherent effort to measure its demand and supply and the size of the gap. There are a significant number of businesses, and a far higher proportion amongst young people, who would be unable to start in business without being able to secure loan finance from a micro-finance institution (MFI) so it would appear that MFIs are indeed filling a gap.

In parallel, the authors began to investigate the issue of bank lending to new starts. It appeared from the research for our earlier paper that there were significant barriers experienced by some groups of entrepreneurs in accessing bank finance and the literature seems to confirm this observation. One consequence of these barriers was that some groups of entrepreneurs were more reliant on other sources, such as MFIs, due to some form of discrimination by banks either because their proposition was not considered 'bankable' or because of their personal characteristics. This paper aims to explore whether entrepreneurs' personal characteristics (ethnicity, gender and education)

introduce additional barriers that impact on their ability to access finance other than those that affect businesses because of their sector, size and other characteristics. Although the paper does not undertake multivariate analysis to separate characteristics, statistical testing is adopted in order to identify whether differences are significant. This research has been made possible by Barclays Bank's small business research team, to whom we are very grateful, who undertook a telephone survey of 400 SMEs on our behalf.

LITERATURE REVIEW

Researchers have devoted much time to access to finance in relation to personal characteristics, particularly gender and ethnicity. Experts argue two main propositions:

(a) That there is plenty of finance and little or no difficulty accessing it (but the propositions are perceived as not viable, or the applicants are perceived as incapable of achieving the objectives, or there is insufficient collateral, and so the whole proposition is too risky for the banks);

(b) That some people exhibit certain characteristics, which makes it more likely that they will fail to secure the funding that they need.

Our thesis is that we accept that proposition (a) above is true, but believe that proposition (b) may also be having an effect. Indeed, the UK Government's Policy Action Team (PAT 14) (1999) articulated the difficulty faced by some businesses in accessing bank finance – due primarily to their age, experience, track record or business structure – though they carefully hedged their bets by not blaming it all on personal characteristics.

Bank finance in context: plenty of finance, no difficulty accessing it

Cosh and Hughes (2003) found that loans from UK banks provide the funding for around two thirds of UK businesses and are the largest source for over 25 per cent of firms. The British Bankers Association (BBA) (2006) reports that in the year to September 2005, term lending reached £33bn and overdraft lending had grown to nearly £9bn. In addition, the BBA reported that half a million small businesses had established new banking relationships over the year.

Consequently, one can be in no doubt that banks are a major lender to small firms – yet there is still a debate about whether they are effectively addressing the needs of women, young people (including young graduates) and ethnic minorities.

Kotey (1999) reminds us that growth is constrained and failure can be caused by financing constraints, and that there are both supply and demand side factors. On the supply side, it is noted that banks are less likely to lend long-term to SMEs due to risk (which is in itself caused by SMEs 'lack[ing] a track record of performance on the basis of which their credit rating could be assessed') and cost ('administrative costs, potential interest income and to the risk of default') and because of lack of collateral. The demand side, Kotey argues, is that many entrepreneurs do not wish to use long-term debt finance. Whilst this may be true for some, and others are 'discouraged' (Kon and Storey 2003; Marlow and Carter 2006), many entrepreneurs are clearly refused finance by banks.

Fraser (2005), in the UK Survey of SME Finances (UKSMEF), reported that some 2.9m SMEs (80%) had used external finance in the previous three years and that the main sources of finance for start ups are personal savings (65%), bank loans (10%) and loans from friends and family (6%), which is quite different from Cosh and Hughes. Fraser (2005) also found that approximately 900,000 businesses (24%) used term loans and that obtaining finance was reported as a major problem at start up by some 10 per cent of businesses. And as his survey was only of people already in business, it fails to capture all those people who have given up as a result of being turned down for a loan.

Lane and Quack (1999), taking a sociological approach, reviewed an important issue in their comparative study of UK and German SMEs' bank lending and their entrepreneurs' attitudes towards risk. It is this issue of risk which influences both entrepreneurs and banks in the deal-making process: entrepreneurs judge the level of risk with which they are comfortable, whilst banks assess how risky the entrepreneur is as a lending proposition. Our study will, therefore, bear in mind the issue of risk given that certain personal characteristics of SMEs may make them more risk-averse or may lead banks to consider them more risky propositions.

Howorth (2001) investigated the pecking order, although the theory emerged in other literature: entrepreneurs tend to seek finance first from their own resources, and then friends and families, and then from other sources such as banks. Indeed, the money from family and friends is often essential (and often regarded as quasi-equity by the banks) to unlock support from commercial institutions. However, the pecking order theory was

originally based on large-scale American corporate ventures and it has been argued that it simply does not apply to small-scale start-ups (Atherton 2006). For this reason, the pecking order does not appear particularly relevant to the respondents of our survey.

Cressy and Toivanen (2001) say that, 'better borrowers get larger loans and lower interest rates; collateral provision and loan size reduce the interest rate paid … the bank is shown to use qualitative as well as quantitative information in the structuring of loan contracts to small businesses'. It may, therefore, be that simply because banks approach the lending process in a risk-averse way (in order to protect the funds of savers), and thus turn down a number of propositions perceived to be 'riskier', that there is an apparent 'discrimination' against, for example, women and ethnic minorities. As a result of this consideration, and the fact that it is understandable why the less well educated might be considered to be riskier, the next section looks only at financial constraints from the perspective of ethnic minorities and women who should not necessarily be more risky.

Personal characteristics: failing to secure funding

Ethnic minorities

The most comprehensive review of ethnic minority businesses (EMBs) is a report by Ram and Smallbone (2001), which found that previous research showed that ethnic minorities were experiencing problems with access to finance especially during the start-up phase (Ram and Deakins 1996; Bank of England 1999). These problems are shown by various studies to be more acute in particular groups, particularly African Caribbeans

and Bangladeshis, although there is a strong influence of the business sector in which particular ethnic groups concentrate (Curran and Blackburn 1993). Research by Smallbone et al (2001) suggested that: ‘as a group, EMBs are not disadvantaged in terms of start-up capital from banks and other formal sources … However, more detailed analysis shows that whilst Chinese owned businesses demonstrated a significantly higher propensity to access start-up finance than white owned firms, the proportion of ACBs [African Caribbean businesses] to do so was below that of the white control group and significantly below with respect to bank finance solely’. The study also found that EMBs were much more reliant upon informal sources of start-up finance. A study by Ram et al (2003) found that EMBs trying to, ‘break out’ of traditional co-ethnic sectors faced ‘discrimination even in the case of entrepreneurs with seemingly impressive track records and personal resource endowments’, though there is an argument that since it is well known that Asian entrepreneurs typically borrow from within the community, proposals are reviewed rigorously when commercial finance is sought. Basu (1998), comparing bank finance to informal sources, (e.g. own resources or families in start-ups by British Asians) and he found that: ‘Although bank finance was valuable in preventing undercapitalised ventures, rapidly growing Asian businesses did not rely on bank finance either at start-up or for expansion. This may be attributed to the short-term perspective of banks’. In addition, Basu (1998) notes that fast-growth BME businesses had used personal savings when they started their firm and adds that: ‘Asian entrepreneurs aspiring to grow need to advance beyond the traditional reliance on informal support networks for finance and labour’.

Finally, the Bank of England (1999) in its report into the Financing of Ethnic Minority Firms in the UK found that:

> 'There is little documented evidence of ethnic minority businesses suffering discrimination by finance providers in the UK, but there is evidence that some ethnic minority businesses perceive that they are treated adversely. Whether or not discrimination exists, the steps that need to be taken by banks and other finance providers to counteract either actual or perceived discrimination are the same in both cases'.

Women entrepreneurs

There have been a number of attempts to investigate access to finance for women (for example, Read 1998; Carter and Rosa 1998) or in terms of venture capital (Green et al 2001). In particular, Carter and Rosa argued that, although finance constraints for women entrepreneurs has been a recurrent issue in policy debates, no consensus has been reached on the question of whether disadvantages exist for women entrepreneurs accessing finance. In a survey of 600 firms, equally split by gender, they found that there are: 'quantifiable gender differences in certain areas of business financing, although intra-sectoral similarities demonstrate that gender is only one of a number of variables that affect the financing process' (Carter and Rosa 1998). The complex influence of other variables, such as education, is an important factor.

Ennew and McKechnie (1998) compared the banking relationships of men and women entrepreneurs and suggested that, 'discrimination occurs amongst lenders at a more unconscious level', and they also considered the relationship between banks and women entrepreneurs with respect to terms and conditions, and quality of service. Coleman (2000) found that women have a lower propensity to access external financing but he argued that this is due not to discrimination by lenders, but rather, 'that women-owned firms paid higher interest rates than men for their most recent loans' (a finding that was later echoed by Fraser 2005 who identified this as a major finance constraint for women).

Carter et al (2001) – more recently updated as Carter and Shaw (2006) – reviewed the development of women's entrepreneurship which they identified as running from the mid 1980s onwards. Carter *et al* discussed studies that suggested women face major constraints in accessing start up (and growth) finance and are perceived by banks as being less 'credible' than men. Carter *et al* (2001) identified from the literature four difficulties for women: discrimination, lack of assets, barriers created by informal networks and stereotyping in banking relationships.

A recent study based on the Global Entrepreneurship Monitor (GEM) found that for start ups there is, 'a negative, gender-specific, finance effect which would tend to reduce start-up rates among women … women are around 7.5 per cent more likely to perceive financial barriers to business start-up than men … This in turn works to reduce start-up rates' (Roper and Scott, 2007). Analysing the Household Entrepreneurship Survey, 'we find no evidence that women face any increased difficulty in obtaining start-up finance.

We do find evidence, however, that women are less likely to seek external finance' (Roper et al 2007). The notion of discouragement is supported by Kon and Storey (2003) who developed a theory of discouraged borrowers, in that there are cases of potential borrowers from banks who may offer perfectly reasonable business proposals but who 'do not apply for a bank loan because they feel they will be rejected.' Marlow and Carter (2006) have lately provided further evidence that many women, fearing refusal, do not 'ask' for finance.

METHODOLOGY AND APPROACH

The literature presents conflicting evidence about whether personal characteristics are an issue when entrepreneurs seek bank finance – though it does seem that there is a perception amongst specific groups of entrepreneurs that they experience difficulty in raising finance. It seems more likely that there are a host of other factors at work which make it more likely that certain groups are less able to articulate their propositions effectively or are less likely to be able to implement their business proposal effectively and are, therefore, regarded as too risky by the banks.

Hence we recognise that some personal characteristics are indicative of higher risk (young people, for example, with no track record, no savings and no collateral) but believe that there is no discrimination based solely on personal characteristics. To test this, the authors prepared a number of research questions, which were codified and incorporated into a telephone survey, intended to differentiate by gender, ethnic group

and education, the level of difficulties raising finance, the sources used to fund the business and the impact on the business of difficulties raising finance. The sample population was extracted from a census of Barclays Bank customers across the UK who had either been recruited as start ups or were existing firms. In many cases, they had a business account, but not necessarily a loan. The interviewers then sourced 400 participants from this larger list at random based on willingness to take part. The only exclusions were clubs, charities and societies. The only limitation was that the firms were still active in the month before the date of interview. The interviews were undertaken by the Barclays Telephone Research Unit, in September 2005, using standard Computer Aided Telephone Interview (CATI) techniques and operated on Market Research Society Guidelines. The results were collected wholly independently from Barclays Bank. The authors were provided with an anonymised Statistical Package for Social Sciences (SPSS) data set containing the responses from all 400 firms. They analysed the data using descriptive statistics and cross-tabulations, which were converted into graphs, to produce the results.

The sample was large and varied enough to provide solid evidence of differences between entrepreneurs' experience of accessing finance from banks by gender. But some caution needs to be exercised particularly when considering ethnic differences due to small sample sizes. There are several other limitations to the methodology. For example, the study is based upon a sample of respondents with existing banking relationships and there is a lack of information, given the nature of the survey, on how 'investment ready' these respondents are. These weaknesses, though, can be used as a platform for future

research using a much wider sample. The results from this study are comparable to other studies cited in the literature review, although with the caveats mentioned here regarding the nature of the sample. Finally, there may be some concerns about the nature of the survey and the voluntary participation of respondents – however, this is an issue with many samples and the usual disclaimers about margins of error need apply.

RESULTS

Characteristics

Of the 400 respondents interviewed, 74 per cent were men and 26 per cent were women. Some 62 per cent were white (i.e. white British) with 6.75 per cent Asian or Asian British, 2.5 per cent Black or Black British, and 21.5 per cent 'other' (including, for example, Chinese), while around 7% did not divulge their ethnicity (which is often an issue of sensitivity in such surveys). Some 38 per cent were already trading when they opened their account with Barclays, whilst 62 per cent were still preparing (i.e. they were in pre-start mode). For 68 per cent of those whose business was already trading, this was their first business account. Of the firms who were currently trading, those trading for fewer than 6 months are the predominant group (as might be expected from the method of identifying the sample population). Around 20 per cent had been trading between 6 months and 2 years, 9 per cent 2-5 years and the remaining firms for over 5 years. The cost of start up for the largest group of these firms was over £20,000, but generally start up costs were less than £5,000.

Financing constraints

One of the key questions in the telephone survey was posed as: 'Did you experience any difficulty in raising the finance needed to start your business?'. The following analysis presents results from the telephone survey for all firms, for firms that were in preparation when they opened their bank account, and for firms that had already started their business. As we noted above, Fraser's research suggested that 10 per cent of businesses had difficulty in raising finance. We found that some 16 per cent of respondents experienced difficulties in raising finance to start their business. As identified by Figure 1, men who had successfully raised finance were more likely to report difficulties (18%) than women (12%).

[Insert Figure 1 about here]

The survey suggested that ethnic minorities did face greater difficulties in raising finance (Figure 2). Just 13 per cent of white respondents reported finance constraints compared to 22 per cent of Asians, 50 per cent of blacks, and 21 per cent within the other ethnicity group (including Chinese and various other ethnicities). This appears *tentatively* to confirm the conclusions from the literature, although we need to be cautious and bear in mind the smaller sample sizes for these groups. Further research is clearly required in order to confirm this emergent, but highly cautious, research finding.

[Insert Figure 2 about here]

Only 8 per cent of graduates in the survey experienced difficulties raising finance, compared to 19 per cent of those educated to General Certificate of Secondary Education (GCSE)/O-level (examination taken at 16), 21 per cent of those with professional, trade or vocational qualifications and a surprisingly high 23 per cent of entrepreneurs educated to Advanced (A)-level (an examination normally taken at 18). Not having a degree makes some respondents twice as likely, or in some cases almost three times as likely, to experience difficulties in raising finance to start their business.

Clearly, difficulties intensify for the firms that were already trading when they opened their bank account, perhaps suggesting that the reason for moving bank was to improve access to loan finance. Although men are twice as likely to have financing constraints in the former category, women are as likely as men to have financing constraints if they opened their bank account when their business had already started. Similarly, the finance constraints intensify for Asian and black people in the 'already started' category (up from 18% to 30% and 33% to 75% respectively) and similarly for 'other' ethnicities (12% to 38%). We find that graduates have the lowest financing constraints at 2% for those starting their bank account as part of their preparations but this rises to 19% if they had already started their business at this point – the other educational levels tend to double in difficulty.

It was possible that the level of education was a major factor in coming to a lending decision, either because bankers valued a higher education or because a higher education means that entrepreneurs are more articulate and more likely, therefore, to persuade the

banks that they have a viable proposition. In our sample population, white, Asian and black entrepreneurs have roughly the same proportions at degree level, though it is noticeable that amongst those whose highest level of education is A level, black entrepreneurs have the lowest proportion. And, at least at higher levels of education, there is little difference between men and women. This suggests that even having a university degree does not offset the disadvantage of being from an ethnic minority when accessing loan finance. If there is discrimination, it may simply because loan officers tend to lend money to those who are like them, rather than those who are perceived as being different. It may be that such officers may even be more likely to identify with uneducated men than highly educated blacks or Asians. This, and the interactions between gender, ethnicity and education, is an important avenue for future research.

Sources of finance

We reviewed variations in sources of finance to start up a business (Figure 3 and 4). We do not discuss here differences between entrepreneurs that were in preparation or had already started the business when the bank account was opened. Following the 'pecking order' (although see again Atherton (2006) for a cautionary note), respondents used familiar sources such as loans, credit cards, hire purchase and leasing. There were no venture capital or business angel backed businesses in the sample population. If remortgaging is added to bank loans, then bank finance is in second place on about 15 per cent. Notably, the top three reflect the research results described in the literature review.

Own personal savings (70% of all firms and also for white respondents) is the primary source of finance for entrepreneurs but is slightly higher for Asians (74%). Women at 72 per cent also have a moderately higher uptake of this source of finance than men, and it is lower for graduates (88%) and for those educated to professional/trade level (86%). All in all, these variations account for less than 5 per cent in each case and are not significantly different.

Redundancy money (5% average) is twice as likely to be used as a source of finance by men (6%) than women (3%), perhaps because of the nature of men's work and higher rates of redundancy in male-oriented occupations. None of the Asian respondents used this source, although 10 per cent of black entrepreneurs in the survey did. Those with professional/trade qualifications (7%) or those educated to A-level (8%) were slightly higher than graduates (6%) to use redundancy money to finance the start up of a business but these differences are minimal.

Men (10%) were twice as likely as women (5%) to remortgage their home in order to finance the start up of their business, perhaps reflecting men's ownership of such assets and their higher propensity to take risks. Black entrepreneurs at 20 per cent were double the average (despite literature suggesting that black people had lower levels of home ownership),[2] whilst A-level educated entrepreneurs were also twice as likely.

---

[2] Although our cautionary note about sample sizes again applies.

Family and friends (12%) was roughly equal between genders but was at 37 per cent for Asians, reflecting findings in the literature, and considerable anecdotal evidence, that Asians rely upon family sources of finance. Only 4 per cent of graduates and 3 per cent of professional/trade qualified entrepreneurs sought finance from family and friends – perhaps suggesting higher personal income – compared to 21 per cent of those educated to A-level and 14 per cent educated to GCSE/O-level.

Bank loans (7% business bank loans, 8% personal bank loans and 13% overall) showed men and women level pegging on business bank loans, but 7 per cent of men and 4 per cent of women used personal bank loans. Asian and black entrepreneurs, at 11 per cent and 10 per cent respectively, were more likely to use business bank loans; however, only 7 per cent of Asians but 20 per cent of blacks used personal bank loans. Education level did not vary much, except for 4 per cent of graduates using business bank loans compared to 10 per cent of those with professional or trade qualifications.

Notably, business credit cards were used by 2 per cent of respondents but 3 per cent of men and 1 per cent of women compared to 7 per cent for personal credit cards comprising 6 per cent of men and 8 per cent of women. Therefore, women were more likely to use personal credit cards than business credit cards. Asians at 4 per cent were more likely to use business credit cards than whites (2%), but were less likely to use personal credit cards (4% compared to 7% for whites). However, 20 per cent of black entrepreneurs relied upon personal credit cards. Variations by the level of education were limited.

[Insert Figure 3 about here]

[Insert Figure 4 about here]

Impact of difficulty raising finance

Some 65 respondents (16%) had experienced difficulty raising finance (the question that was asked in the survey was: 'Did you experience any difficulty in raising the finance needed to start in business?'). We then asked respondents to describe the impact on their business arising from the difficulty experienced in raising finance. Respondents were able to indicate any number of these impacts and not just one main impact. These impacts included having 'less funds than anticipated at start up' (55% of the 65), the need to scale back plans (38%) and having to seek alternative sources of finance.

It seems that male entrepreneurs are more prepared to take risks, with more than twice the proportion of women starting up with less money than anticipated, and very few women going back to seek additional finance soon after starting up.

[Insert figure 5 about here]

[Insert figure 6 about here]

Ethnic minority entrepreneurs facing difficulties in raising the necessary finance appear to do everything they can to mitigate the impact, including delaying their start, scaling back their plans and starting with less money than anticipated.

Level of education does not appear to make any difference to the impact on the business, though it should be noted that graduates are less likely to start with less than anticipated and much less likely to seek additional finance early on.

CONCLUSIONS AND RECOMMENDATIONS

If one was being flippant, one would say that the research tells us that uneducated, black men have the greatest difficulty in raising finance.

The research appears to suggest that personal characteristics do make some difference to the ability of entrepreneurs to raise finance.

Not surprisingly, graduates have the least difficulty in raising finance. Education appears to make little difference to sources of finance, except that those educated (only) to A levels seem more likely to use friends and family and to remortgage their home.

Perhaps surprisingly, given some of the conclusions from the literature, it seems that women find it easier to raise finance than men, though this would not be surprising to any developing country micro-finance institution, many of which only lend to women because of their better track record in repaying their loans. We would caution, though, that other literature (Marlow and Carter 2006; Roper and Scott 2007) points towards women as 'discouraged borrowers', a theory developed by Kon and Storey (2003), and indeed some women entrepreneurs may not report constraints accessing finance because they may be 'discouraged' from seeking loan finance because they believe they will be refused or, more alarmingly, discriminated against. Gender appears to make little difference to the choice of finance source utilised – most settle for personal savings, but there is little difference across each source.

The research appears to confirm that ethnic minority businesses, particularly black entrepreneurs, have the greatest problem in raising the finance that they require. Ethnicity also makes a difference to sources of finance with black people far more likely to remortgage their home, use personal bank loans and use personal credit cards (all perhaps suggesting a willingness to accept a high level of personal risk or else a total frustration with their ability to raise commercial finance – or, once again, 'discouraged borrowing' (Kon and Storey 2003) – coupled with a determination nevertheless to start up) and Asians far more likely to tap family sources.

Clearly this study, having only covered entrepreneurs who have successfully started and now have a business banking relationship, does not capture the problems faced by people who are unable to raise the finance needed and never actually start up.

Of those experiencing difficulties, most suffered some impact – in many cases, people started with less than anticipated (and presumably less than they really needed). This could be dangerous for many businesses, potentially setting them off on the wrong foot, and explaining why so many then needed additional finance in the first few months.

Some commentators argue that business bank lending does appear to be more fairly addressing issues of access to finance - and that the problems of access to finance should not be unduly laid at the door of the bank branch. In other words, there are other external factors that lead to financing constraints at start up. More broadly, though, as one commentator observed in correspondence with the authors:

> 'the research just confirms that society is unequal. Many of the demographic and socio-economic variations you note will map back to different risk-reward implications for different types of suppliers of financial services. If the differences do have risk implications, surely the finance providers are acting rationally to deny applications if the reward ratio is too little for them? Even something like the Small Firms Loan Guarantee Scheme (SFLGS) does not provide an answer as this is only to replace lack of security/track record - we still have to want to lend to them in any circumstance and the 25-30 per cent un-covered by SFLGS still is an obstacle! Also, I do not see it as a job for the private commercial sector to solve inequality (beyond paying its taxes to fund government and as a good corporate citizen).'

This research did not look at the 'investment readiness' of propositions. It would be interesting, now, to work with the bank on a review of business plans being submitted to explore whether different groups are better or worse at making the case for bank support. It would also be interesting to look at plans submitted by prospective entrepreneurs who have had support from a business support organisation to see what difference they make.

It is difficult, too, to make recommendations for policy makers based on one piece of research. However, we are concerned that the majority of businesses are starting up with (only) personal savings and believe that many people with sound business ideas are giving up simply because of the difficulties of raising the finance. We are conscious that the level of resource available through MFIs is very small compared to bank lending to SMEs and we would recommend that more support is made available through MFIs and other non-bank lending routes to support people with a proposition that looks viable but who lack sufficient resources to get started and cannot attract bank finance.

REFERENCES

Atherton, A. (2006) 'Pecking Order' Theorisations of Finance Re-visited: Prior Experiences and Founder Heuristics as a Determinant of Start-up Finance Acquisition, paper presented at the British Academy of Management annual conference, 12-14 September.

Bank of England (1999) *The Financing of Ethnic Minority Firms* (London: Bank of England).

Basu, A. (1998) The role of institutional support in Asian entrepreneurial expansion in Britain, *Journal of Small Business and Enterprise Development*, 5 (4), 317-326.

British Bankers Association (2006) press release, 2 February 2006 (London: British Bankers Association).

Carter, S., Anderson, S. and Shaw, E. (2001) *Women's Business Ownership: A Review of the Academic, Popular and Internet Literature*, Report to the Small Business Service, (London: Small Business Service).

Carter, S. and Rosa, P. (1998) The financing of male- and female-owned businesses, *Entrepreneurship & Regional Development*, 10 (3), 225-241.

Carter, S. and Shaw, E. (2006) *Women's Business Ownership: Recent Research and Policy Developments* (London: Small Business Service).

Centre for Women's Business Research (2004) *Women-owned Business in the US: Trends in the U.S. and 50 States* (Washington, DC: Centre for Women's Business Research).

Coleman, S. (2000) Access to capital and terms of credit: a comparison of men- and women-owned small businesses, *Journal of Small Business Management*, 38 (3), 37-52.

Cosh, A. and Hughes, A. (eds) (2003) *Enterprise Challenged: Policy and Performance in the British SME Sector 1999-2002* (Cambridge: ESRC Centre for Business Research).

Cressy, R. and Toivanen, O. (2001) Is there adverse selection in the credit market?, *Venture Capital*, 3 (3), 215-238.

Curran J. and Blackburn R. (1993) *Enterprise and the High Street Bank*, Small Business Research Centre (London: Kingston University).

Ennew, C. and McKechnie, S. (1998) The nature of the banking relationship: a comparison of the experiences of male and female small business owners, *International Small Business Journal*, 16 (3), 39-55.

Federation of Small Businesses (2002) *Lifting the Barriers to Growth in UK Small Businesses: West Midlands* (London: Federation of Small Businesses).

Fraser, S. (2005) *Finance for Small and Medium Sized Enterprises: A Report on the 2004 UK Survey of SME Finances* (Coventry : Warwick Business School).

Green, P.G., Brush, C.G., Hart, M.M. and Saparito, P. (2001) Patterns of venture capital funding: is gender a factor?, *Venture Capital*, 3 (1), 63-83.

HM Treasury (1999) *Access to Financial Services*. Policy Action Team 14 (London: HM Treasury).

Howorth, C.A. (2001) Small firms' demand for finance, *International Small Business Journal*, 19 (4), 78-86.

Irwin, D. and Scott, J.M. (2006) The important role of micro-finance in supporting SMEs, *Cyprus International Journal of Management*, June.

Kon, Y. and Storey, D.J. (2003) A theory of discouraged borrowers, *Small Business Economics*, Vol. 21, No. 1, p. 37-49.

Kotey, B. (1999) Debt financing and factors internal to the business, *International Small Business Journal*, 17 (3), 11-29.

Lane, C. and Quack, S. (1999) The social dimensions of risk: bank financing of SMEs in Britain and Germany, *Organization Studies*, 20 (6), 987-1111.

Ram, M. and Deakins, D. (1996) *African-Caribbean Entrepreneurship in Britain* (Birmingham: University of Central England, Birmingham).

Marlow, S. and Carter, S. (2006) If You Don't Ask You Don't Get! Women, Self-employment and Finance, *Warwick Business School Small Firms Finance Conference*, May.

Ram, M. and Smallbone, D. (2001) *Ethnic Minority Enterprise: Policy in Practice*, (Sheffield: SBS).

Ram, M., Smallbone, D., Deakins, D. and Jones, T. (2003) Banking on 'break-out': finance and the development of ethnic minority businesses, *Journal of Ethnic and Migration Studies*, 29 (4), 663-681.

Read, L. (1998) *The Financing of Small Business: a Comparative Study of Male and Female Business Owners* (New York: Routledge).

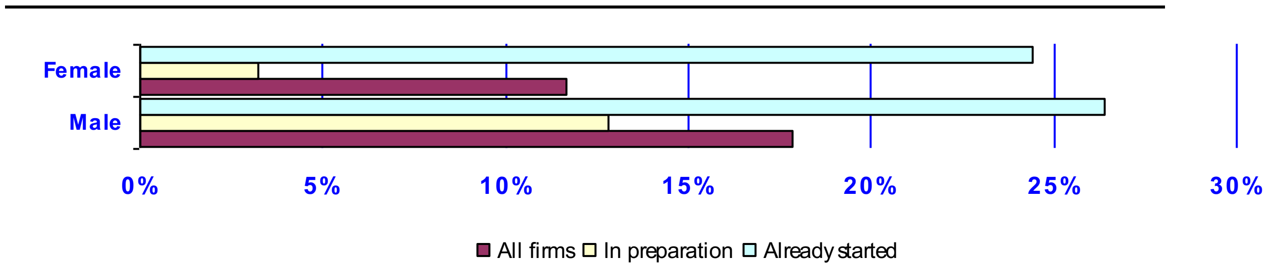
Roper, S. and Scott, J. (2007) Gender differentials in access to finance for business start-up in the UK – an econometric analysis of GEM data, *ISBE conference*, Glasgow, 7-9 November.

Roper, S., Driffield, N., Sena, V., Añon Higon, D. and Scott, J.M. (2007) *Exploring Gender Differentials in Access to Business Finance – An Econometric Analysis of Survey Data* (Sheffield: Small Business Service).

Smallbone, D., Ram, M., Deakins, D. and Baldock, R. (2001) *Accessing Finance and Business Support by Ethnic Minority Businesses in the UK*, paper presented at the 'Public Policy and Institutional Context of Immigrant Businesses', Liverpool, 22-25 March 2001.

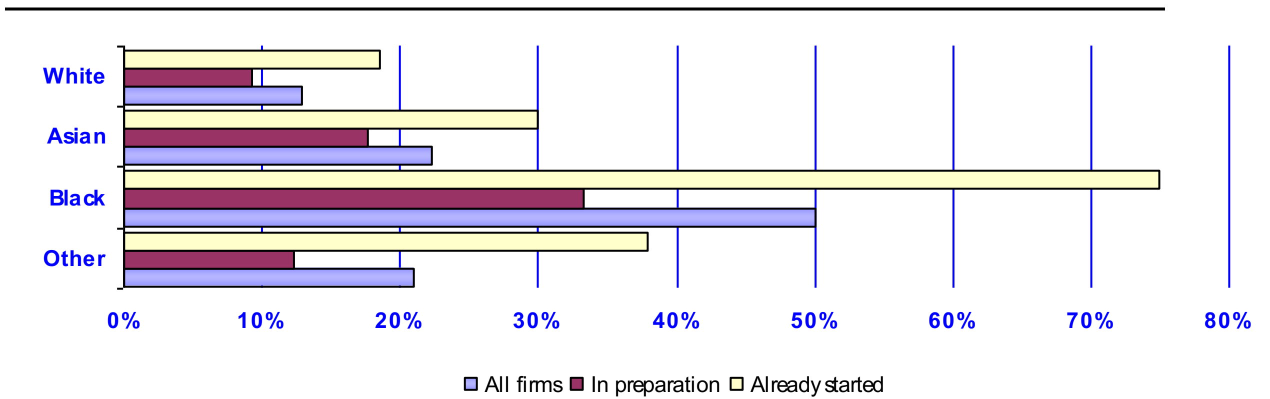
Tyler, R. (2007) Credit crunch for small businesses? It's more of a gentle squeeze, *Daily Telegraph*, 2 October: B8.

Figure 1: Proportion of firms facing financing constraints by gender



Source: Barclays Bank research for Irwin & Scott, 2005
Note: A chi square test found that for all firms, at the .05 level, the distribution is statistically insignificant.

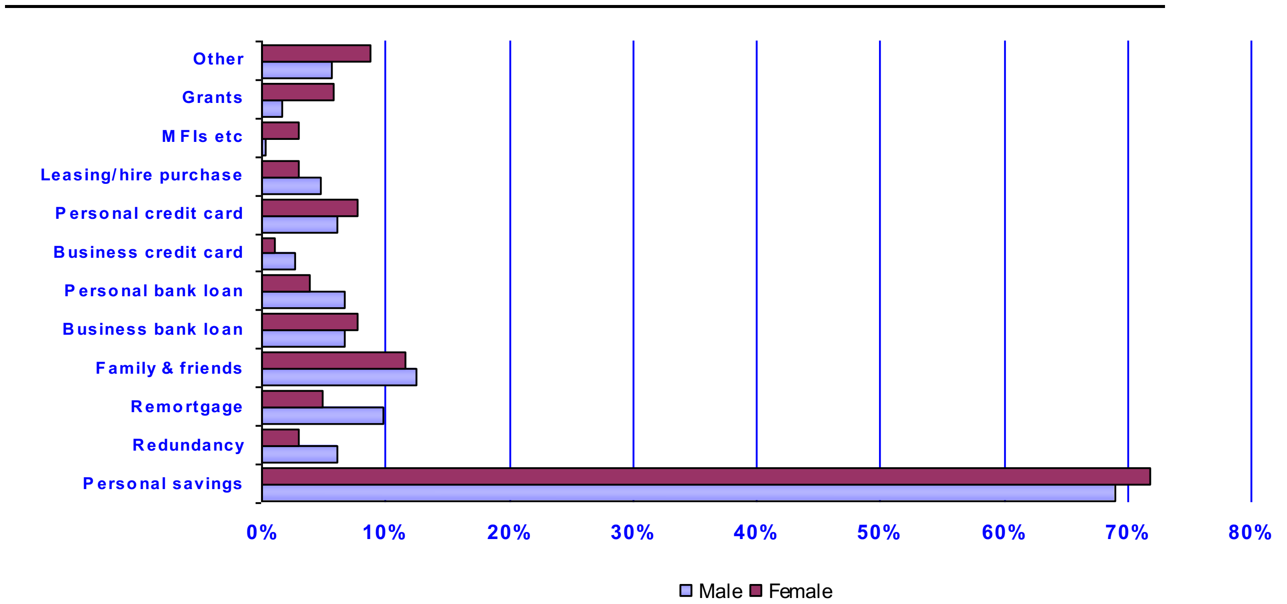
Figure 2: Proportion of firms facing financing constraints by ethnicity



Source: Barclays Bank research for Irwin & Scott, 2005

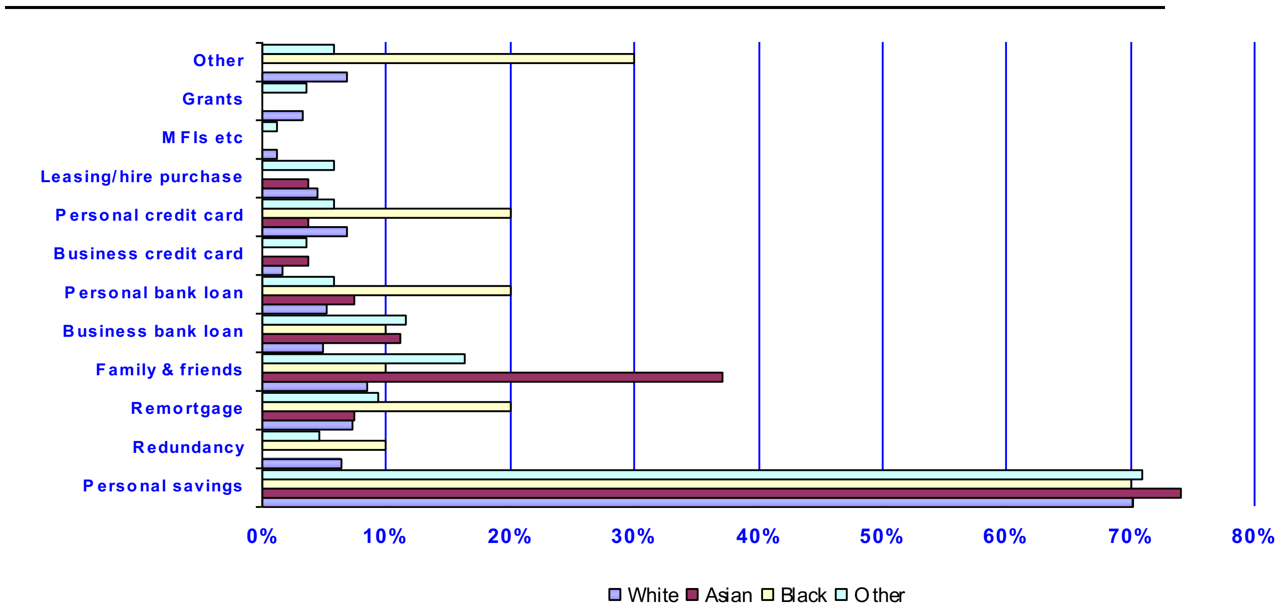
Note: A chi square test found that for all firms the distribution is statistically significant.

Figure 3: Sources of finance by gender



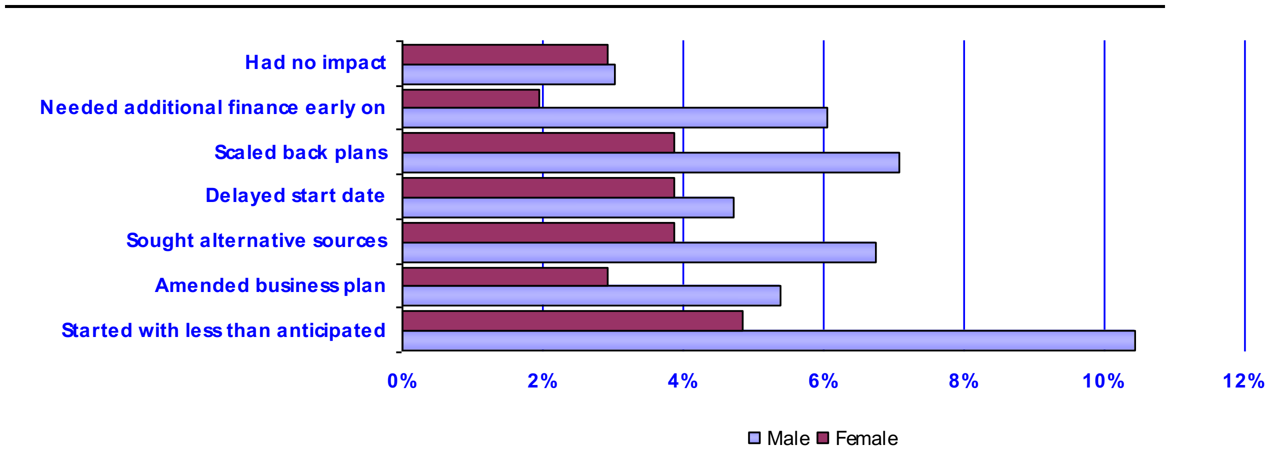
Source: Barclays Bank research for Irwin & Scott, 2005

Figure 4: Sources of finance by ethnicity



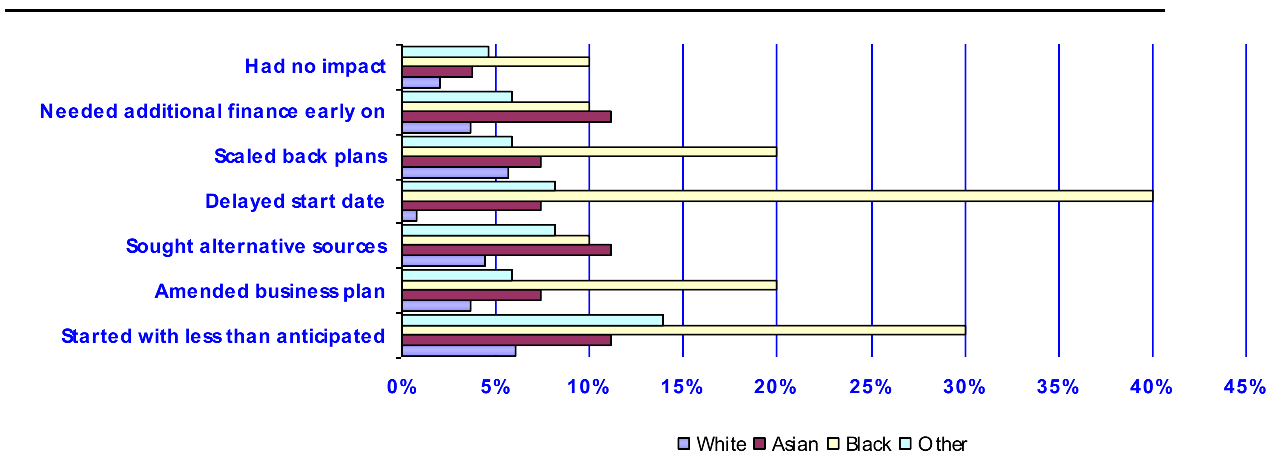
Source: Barclays Bank research for Irwin & Scott, 2005

Figure 5: Impact of finance constraints by gender



Source: Barclays Bank research for Irwin & Scott, 2005

Figure 6: Impact of finance constraints by ethnicity



Source: Barclays Bank research for Irwin & Scott, 2005