

## Barriers faced by SMEs in raising finance from banks

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**Objectives:** This paper aims to explore some of the barriers faced by entrepreneurs in raising bank finance to support and grow their businesses, specifically exploring the extent to which owner-managers' personal characteristics (ethnicity, gender and education) impact upon their ability to access finance for their enterprise.

**Prior work:** There has in the literature been some attempt to consider personal characteristics and, in particular, those of gender and ethnicity. The literature review in the paper shows that previous research indicates constraints in accessing finance for females, ethnic minorities and the less well educated. This paper builds upon this research and reveals some new insights.

**Approach:** The approach adopted for the research is a telephone survey conducted by the Barclays small business research team on behalf of the authors. These data are quantitative in nature and involve a large sample of 400 SMEs with specific questions analysed by gender, ethnicity and education level. The approach adopted is robust and empirically sound and is a long established research methodology.

**Results:** We find that there are key differences by personal characteristics in terms of the specific barriers faced by SMEs in seeking bank finance. The paper explores the implications of these differences. These are final results from a large-scale survey, and suggest opportunities for further research which could be achieved by interviewing some firms face-to-face to discuss their experiences and the impact of personal characteristics on access to finance.

**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 brings new insights into its field – access to finance – and with respect especially to marginalised groups.

**Value:** 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

"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.

## 1. Introduction

The paper follows on from research conducted by the authors in the North East of England and presented at last year's ISBE conference and since then re-worked for publication (Irwin and Scott 2005, 2006). 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. Although finance from family and friends is particularly important for young people who want to start in business, micro-finance is also essential - not least in leveraging finance from commercial sources. 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. The survey examined issues around variations in running costs, issues around sustainability, performance measurements and benchmarking, promotion and advice and support.

In parallel, the authors began to investigate the issue of bank lending to new starts. It appeared from the research for our first 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. This research has been made possible by Barclays Bank small business research team, to whom we are very grateful, who undertook a telephone survey of 400 SMEs on our behalf.

## 2. Literature review

There has, in the literature, been some attempt to consider access to finance in relation to personal characteristics and, in particular, those of gender and ethnicity. The literature argues, on the one hand, that there is (a) 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) and, on the other, that (b) 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 (a) above is true, but believe that (b) may also be having an effect. Indeed, the 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.

### 2.1 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 the largest source for over 25 per cent of firms. The British Bankers Association (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 and ethnic minorities.

It is critical to understand the decision-making process of both banks and entrepreneurs in the lending process and the way in which distortions caused by the impact of entrepreneurs' personal characteristics could lead to discrimination. 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 on account 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, it is clear that many entrepreneurs are refused finance by banks.

Fraser (2005) in the UK Survey of SME Finance (UKSSMEF) 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 loan (10%) and friends/family loan (6%), which is considerably different from Cosh and Hughes. He 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.

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." In effect, 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.

## **2.2 Personal characteristics: failing to secure funding**

### **2.2.1 Ethnic minorities**

The most comprehensive review of ethnic minority businesses (EMBs) is a report by Ram and Smallbone (2001) which recognises that the finance issue is crucially important. The report reviews the literature on access to finance for EMBs (pp15-17) and emphasises that previous research showed that ethnic minorities were experiencing problems with access to finance especially during the start-up phase (Bank of England 1999; Ram and Deakins 1996). In fact, they show that there are considerably more difficulties than experienced by white entrepreneurs. 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 the picture is actually quite mixed: "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) finds that EMBs trying to 'break out' of traditional co-ethnic sectors face "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) compared bank finance to informal sources, such as from 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 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: "'Financing problems faced by ethnic minority businesses are similar in nature to those encountered by small businesses generally, although some studies suggest that they encounter them in a more acute form at both the start-up and the growth stages.'" Furthermore, they note that: "some ethnic minority groups continue to perceive access to finance as a disproportionate difficulty for their communities ... There are a number of possible explanations as to why ethnic minority businesses encounter difficulties, including risk aversion behaviour by lenders, sectoral concentration of ethnic businesses, failure rates and lack of business planning." Finally, the Bank concludes 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."

### **2.2.1 Women entrepreneurs**

There have been a number of attempts to investigate access to finance for women. A number of helpful overviews were produced towards the end of the 1990s (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 female entrepreneurs has been a recurrent issue in policy debates, no consensus has been reached on the question of whether disadvantages exist for female 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." The complex influences of other variables, such as education, is an important factor.

Ennew and McKechnie (1998) compare the banking relationships of male and female entrepreneurs and suggest that, "discrimination occurs amongst lenders at a more unconscious level", and then consider the relationship between banks and female entrepreneurs with respect to terms and conditions, and quality of service. Coleman (2000) finds that women have a lower propensity to access external financing but he argues 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".

Carter et al (2001) review the development of female entrepreneurship which they identify as running from the mid 1980s onwards. Carter contrasts studies that suggest women face major constraints in accessing start up (and growth) finance and are perceived by banks as being less 'credible' than men. Carter does identify from the literature four difficulties for women: discrimination, lack of assets, barriers created by informal networks and stereotyping in banking relationships. However, there are other studies that do not show this to be the case.

A recent study commissioned by SBS analysed a number of databases, Global Entrepreneurship Monitor (GEM), Household Survey of Entrepreneurship (HSE), Annual Small Business Survey (ASBS) and UKSMEF (Roper et al 2006). Roper et al found that for start ups there are "negative, gender-specific, finance effect which would tend to reduce female start-up rates ... females are around 7.5 per cent more likely to perceive financial barriers to business start-up ... reduce start-up rates" (GEM). Using HSE, "we find no evidence that females face any increased difficulty in obtaining start-up finance. We do find evidence, however, that females are less likely to seek external finance" (ibid).

For existing firms, Roper et al found that "In terms of the supply side our results are somewhat contradictory with evidence from the ASBS highlighting some negative gender effects but the UKSMEF suggesting that women-led firms are less likely to be discouraged in their search for business finance. More specifically, the ASBS suggests that women-led firms are around two per cent more likely to have difficulty raising finance and also two per cent more likely to find it impossible to raise the finance they are seeking. The UKSMEF 2004 data on the other hand suggests that women-led businesses are less likely to face discouragement when applying for external finance" (ibid).

### **2.3 Key issues in the literature: a summary**

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.

### **3. Methodology and approach**

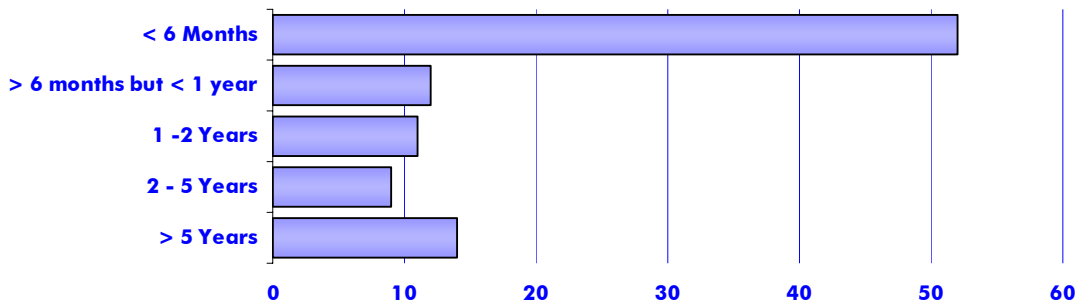
We recognise that some personal characteristics are indicative of higher risk (young people, for example, with no track record, no savings and no collateral) but believe that there is no discrimination based solely on personal characteristics. To test this, the authors prepared a number of research questions, 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 business and the impact on the business of difficulties raising finance. The sample population was extracted from a census of Barclays Bank customers who were under 12 months old and had been recruited as start ups. In other words, 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 are collected wholly independently from Barclays Bank. The authors were provided with an anonymised 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, in order to produce the results section of the study. The sample was large and varied enough to provide solid evidence of differences between entrepreneurs' experience of accessing finance from banks based upon their personal characteristics.

## 4. Results

### 4.1 Characteristics

The 400 respondents interviewed comprised 76 per cent male and 26 per cent female. Some 52 per cent were white with 7 per cent Asian or Asian British, 3 per cent Black or Black British, and 22 per cent 'other' (including, for example, Chinese). Some 38 per cent were already trading when they opened their account with Barclays, whilst 62 per cent were still preparing (i.e. were in pre-start mode). For 68 per cent of those whose business was already trading, this was their first business account. As figure 1 shows, of the firms who were currently trading, those trading less than 6 months are the predominant group (as might be expected from the method of identifying the sample population).

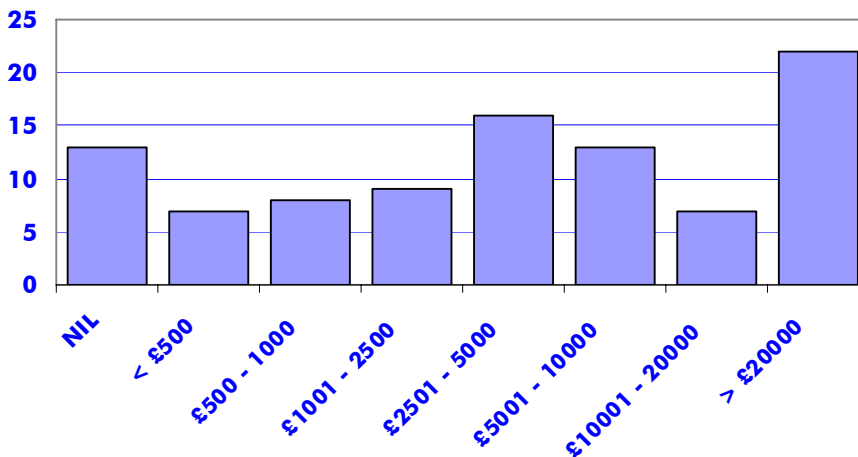
**Figure 1: Length of time trading before opening account with Barclays (%)**



Source: Barclays bank research for Irwin & Scott, 2005

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, as shown in figure 2.

**Figure 2: Cost of start up**

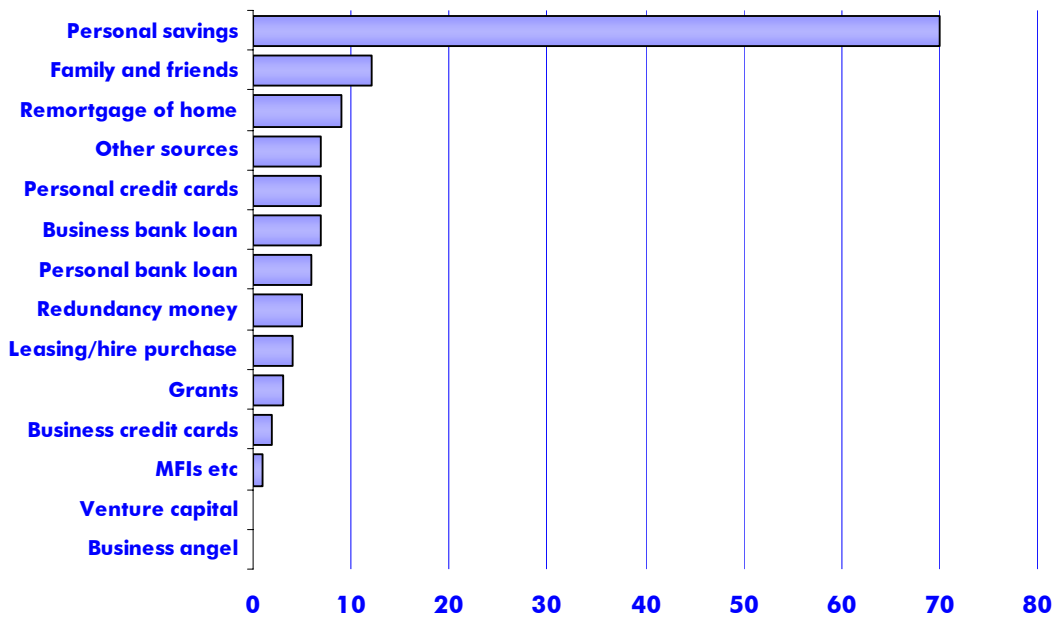


Source: Barclays Bank research for Irwin & Scott, 2005

In figure 3, we show the sources of finance – with personal savings at 70 per cent being the principal choice for finance followed by family and friends and remortgaging of the entrepreneur’s home. As we go down the ‘pecking order’, we see familiar sources such as loans, credit cards, HP/leasing. There were no VC 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. Importantly, the top three reflect the research results described earlier.



**Figure 3: Sources of funds for start up**



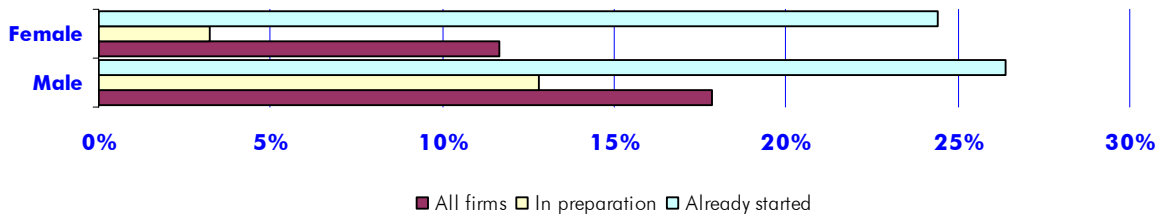
Source: Barclays Bank research for Irwin & Scott, 2005

### 4.2 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 business?” The following analysis presents results from the telephone survey first of all 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 some 16 per cent of respondents experienced difficulties in raising finance to start their business.

Males who had successfully raised finance were more likely to report difficulties (18%) than females (12%).

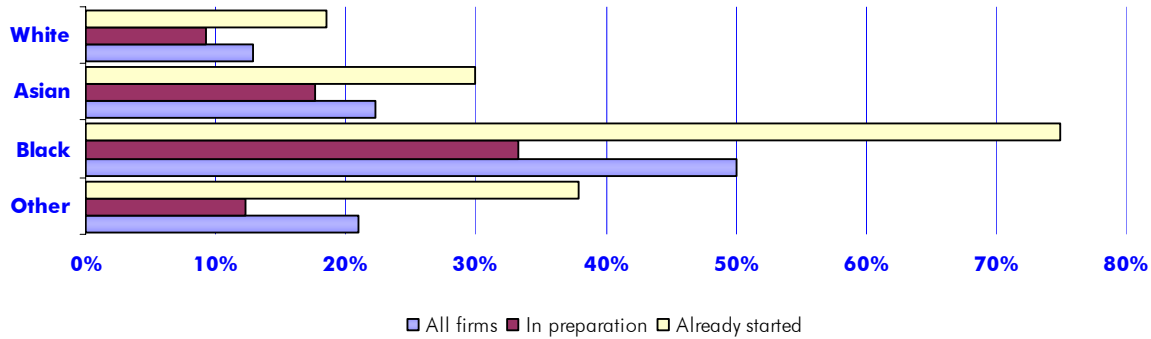
**Figure 4: Financing constraints by gender**



Source: Barclays Bank research for Irwin & Scott, 2005

The survey suggests that EMBs do face greater difficulties in raising finance. 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 to confirm the conclusions from the literature.

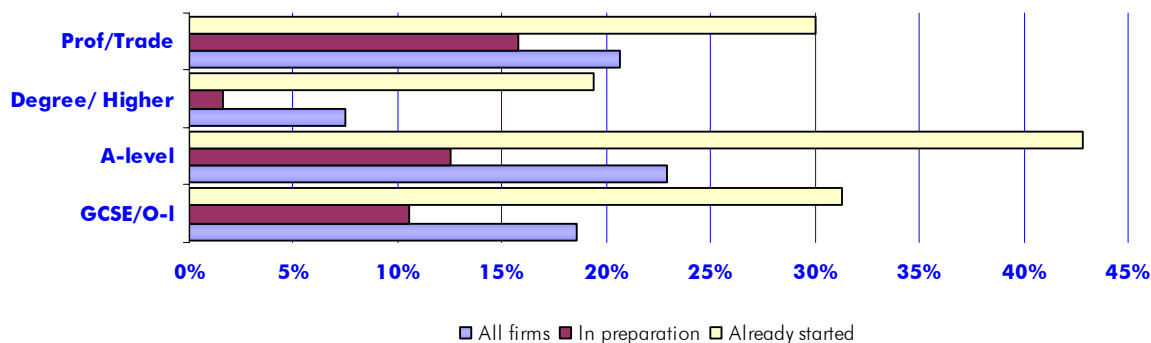
**Figure 5: Financing constraints by ethnicity**



Source: Barclays Bank research for Irwin & Scott, 2005

The impact of education is also fairly conclusive and indicates that only 8 per cent of graduates in the survey experienced difficulties raising finance, compared to 19 per cent of those educated to GCSE/O-level, 21 per cent of those with professional, trade or vocational qualifications and a surprisingly high 23 per cent of entrepreneurs educated to A-level. 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.

**Figure 6: Financing constraints by education**



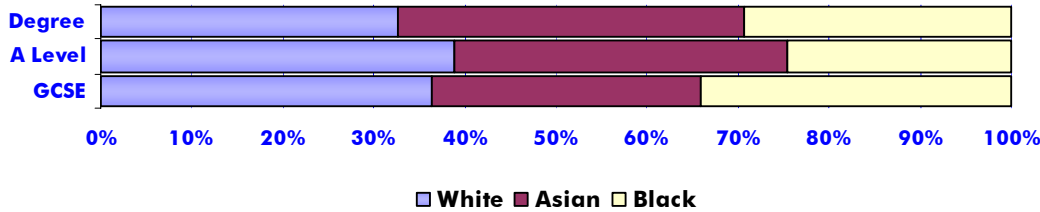
Source: Barclays Bank research for Irwin & Scott, 2005

We considered variations in financing constraints by when the bank account was opened (as part of preparations or when the business was already started). 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%). By education 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. As can be seen from the chart, 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.



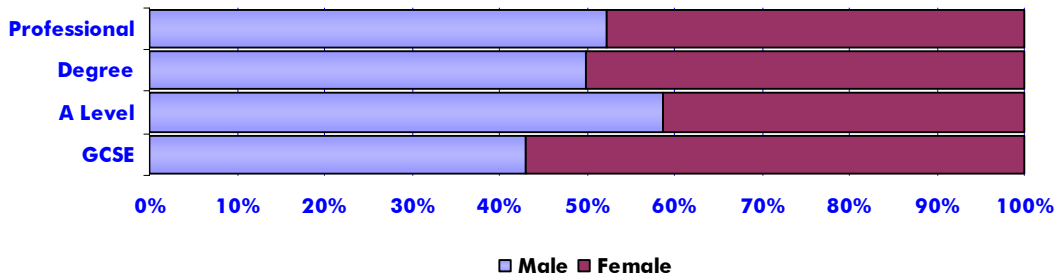
**Figure 7: Education level by ethnicity**



Source: Barclays Bank research for Irwin & Scott, 2005

And, at least at higher levels of education, there is no real difference between men and women.

**Figure 8: Education level by gender**



Source: Barclays Bank research for Irwin & Scott, 2005

### 4.3 Sources of finance

We reviewed variations in sources of finance to start up a business. We have more detailed data, but we only report here on responses from all firms. It should be noted that there are variations but we do not seek to explore these here.

*Own personal savings* (70% of all firms and 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 slightly higher uptake of this source of finance than men, and it is slightly 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 for 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 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.

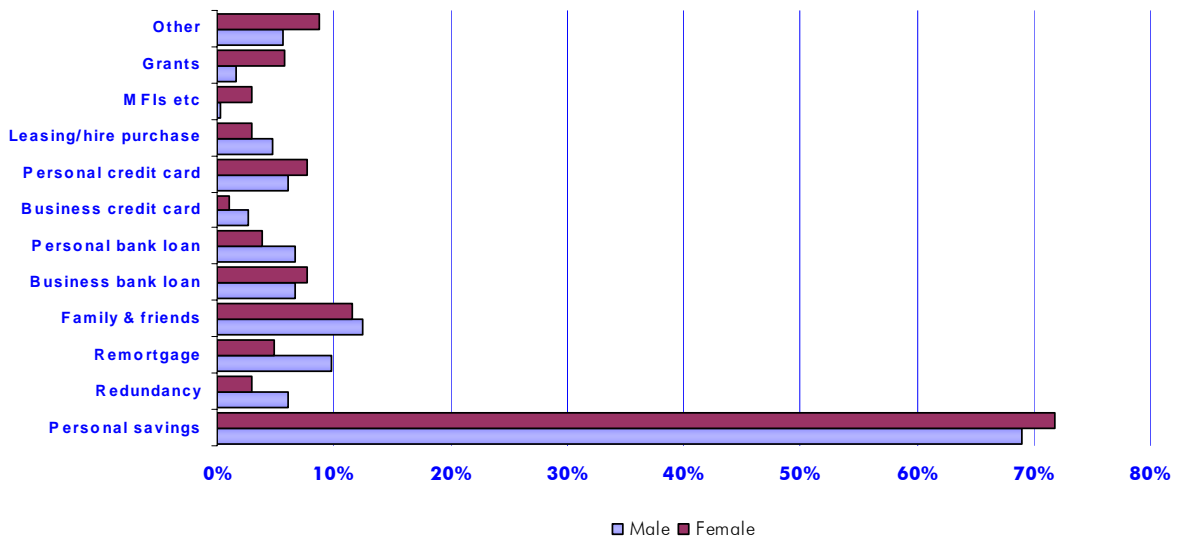
Men (10%) were twice as likely as women (5%) to remortgage their home in order to finance the start up of their business, perhaps reflecting men’s ownership of such assets and their higher propensity to risk. Black entrepreneurs at 20 per cent were double the average (despite literature suggesting that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

*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 to GCSE/O-level.

*Bank loans* (7% business bank loans, 8% personal bank loans and 13% overall) showed males and females level pegging on business bank loans, but 7 per cent men and 4 per cent of women used personal bank loans. Asians and blacks, 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.

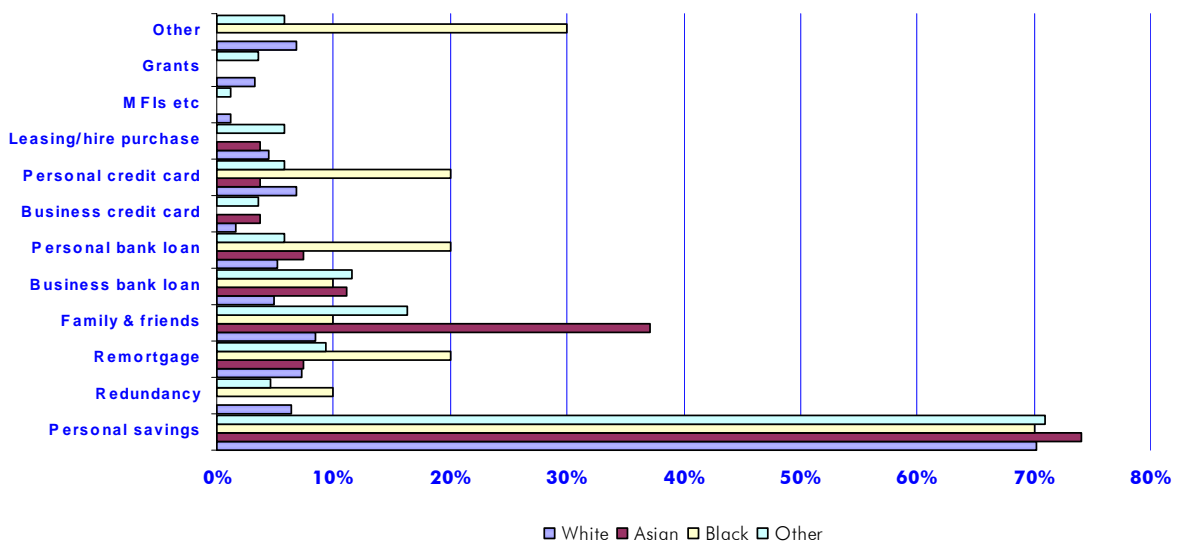
Notably, business credit cards were used by 2 per cent of respondents but 3 per cent of males and 1 per cent of females compared to 7 per cent for personal credit cards comprising 6 per cent of men and 8 per cent of women. Therefore, women were more likely to use personal credit cards than business credit 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 education were again limited.

**Figure 9: Sources of finance by gender**



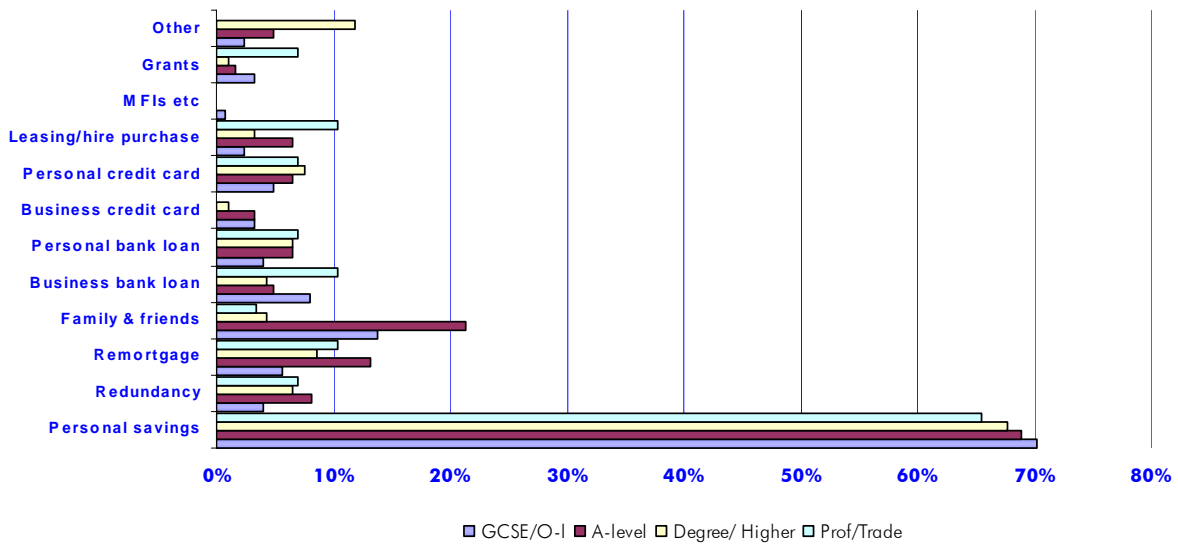
Source: Barclays Bank research for Irwin & Scott, 2005

**Figure 10: Sources of finance by ethnicity**



Source: Barclays Bank research for Irwin & Scott, 2005

**Figure 11: Sources of finance by education**



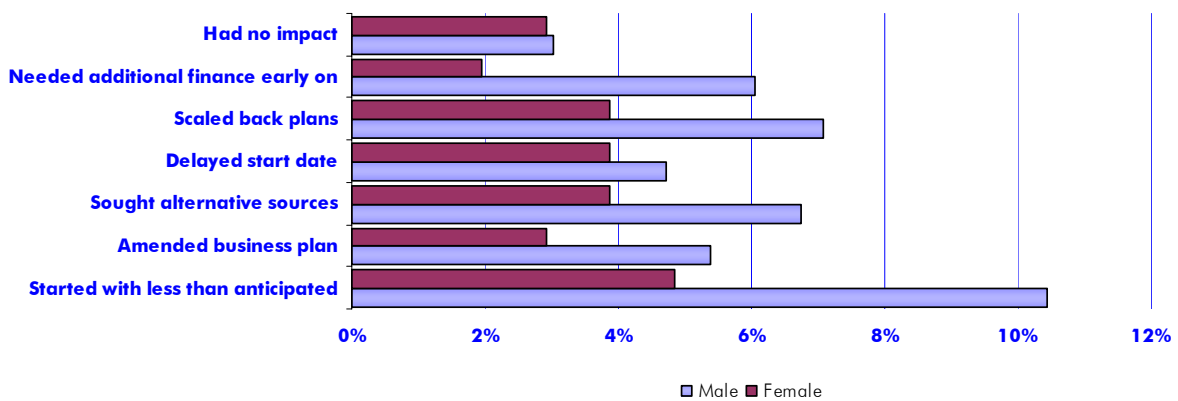
Source: Barclays Bank research for Irwin & Scott, 2005

**4.4 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. Figures 10, 11 and 12 illustrate these impacts – as a percentage of all firms.

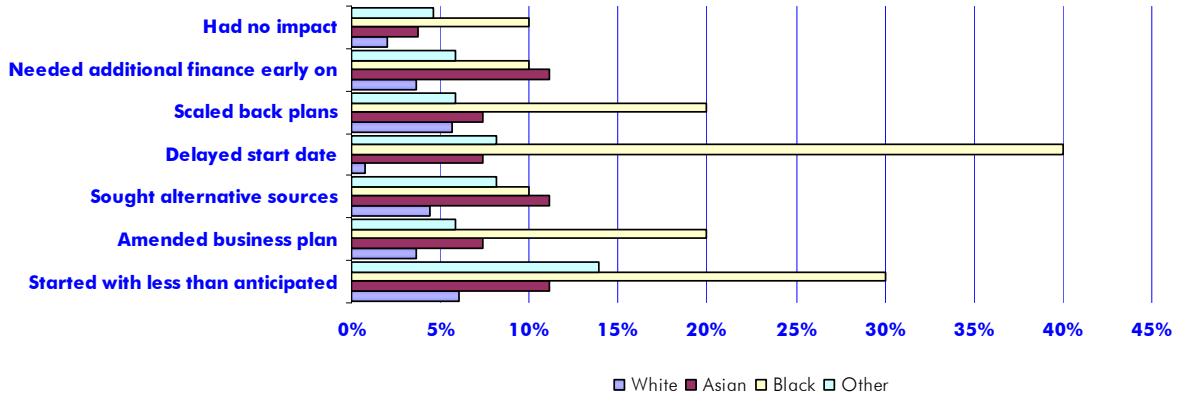
It seems that male entrepreneurs are more fool-hardy, with more than twice the proportion of women starting up with less money than anticipated, and very few women going back to seek additional finance soon after starting up.

**Figure 12: Impact by gender**



Source: Barclays Bank research for Irwin & Scott, 2005

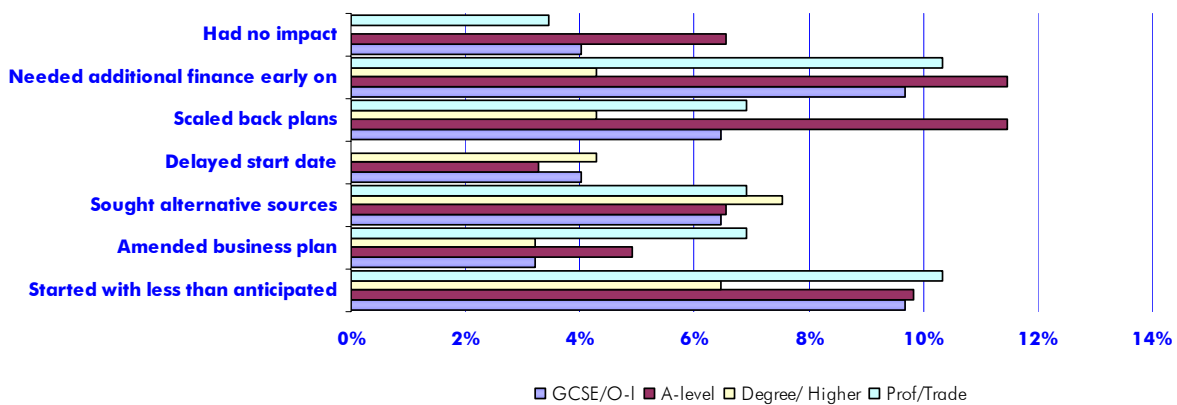
**Figure 13: Impact by ethnicity**



Source: Barclays Bank research for Irwin & Scott, 2005

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.

**Figure 14: Impact by education**



Source: Barclays Bank research for Irwin & Scott, 2005

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.

**5. Conclusions and recommendations**

If one was being flippanant, 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. 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 coupled with a determination nevertheless to start up) and Asians far more likely to tap family sources.

Clearly this survey, which has 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, therefore, 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 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.

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