

Financing Growth

Stuart Fraser

Warwick Business School

stuart.fraser@warwick.ac.uk

Mike Wright

Imperial College Business School

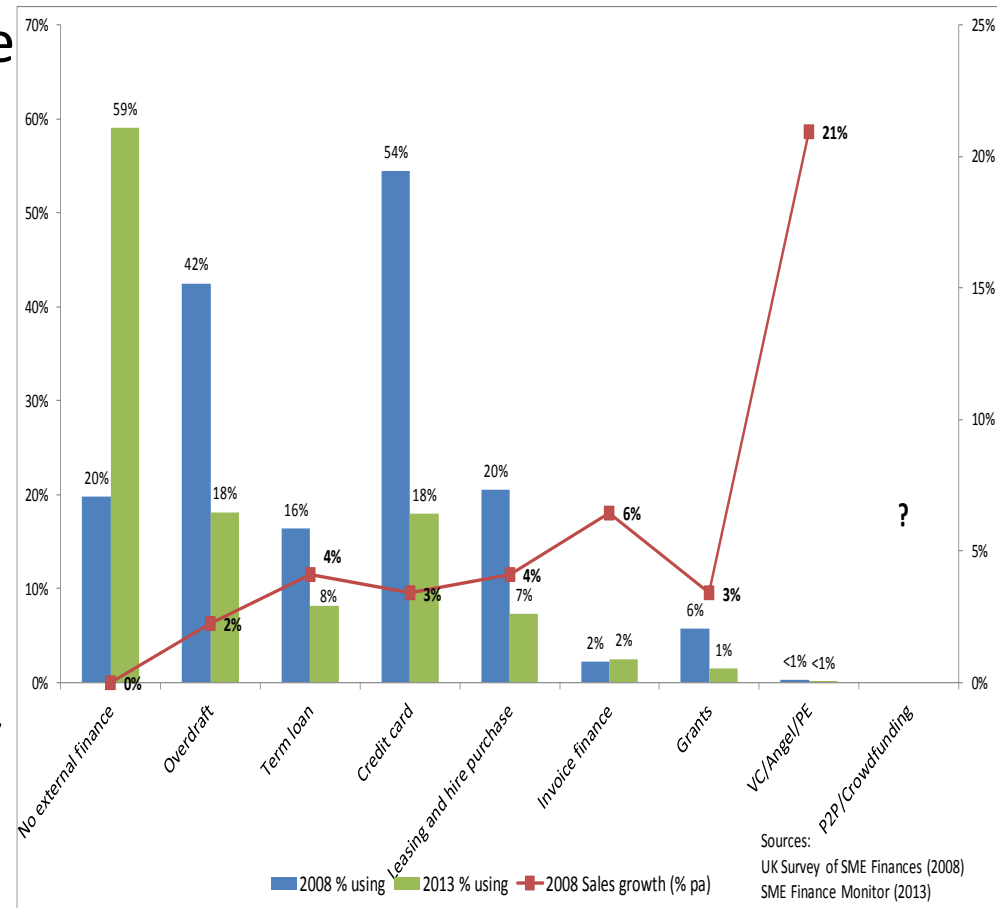
mike.wright@imperial.ac.uk

Introduction

- Promising signs of sustainable recovery.
 - Business investment forecast to rise by 7% – 11.5% in 2014.
 - Growth forecasts upgraded to 3% – 3.4%.
- Yet, key risk that SME demand for finance remains low.
 - % of users/seekers of external finance down compared to 2008.
 - Net lending to SMEs fell by £723m in Q1 2014 (BoE).
- Why?

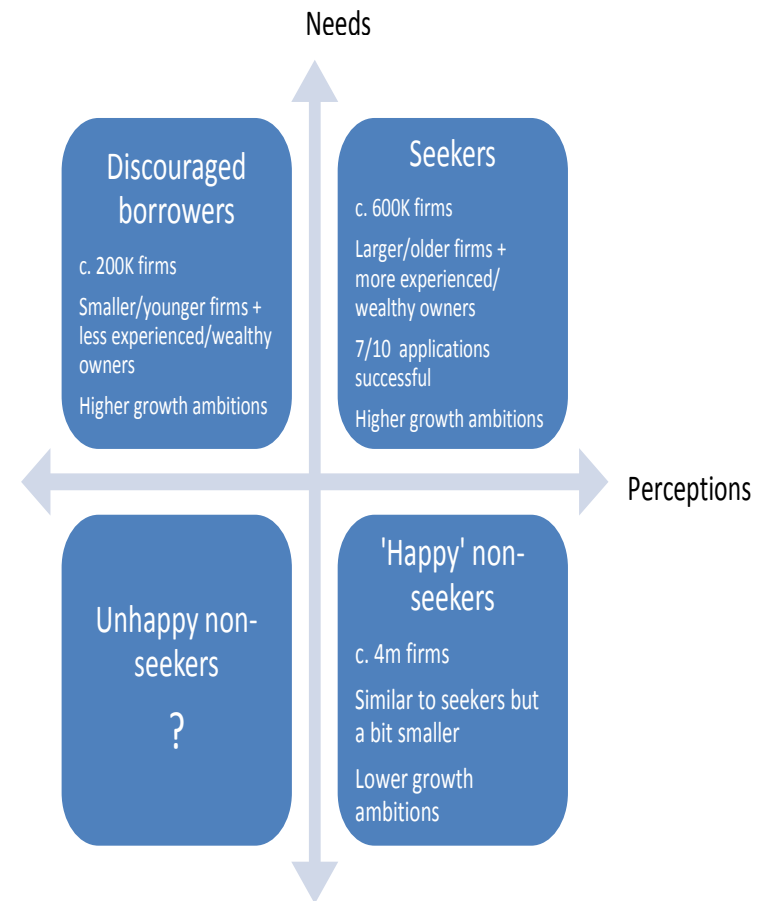
Finance and growth

- Firms using external finance grow faster
 - Equity backed firms (e.g., Goodfish) grow fastest
 - More than finance (ambition and boards)?
- But number of non-users significantly higher in 2013
 - Dented ambition/confidence?
- ERC research looked at why businesses decide (not) to seek bank funding...



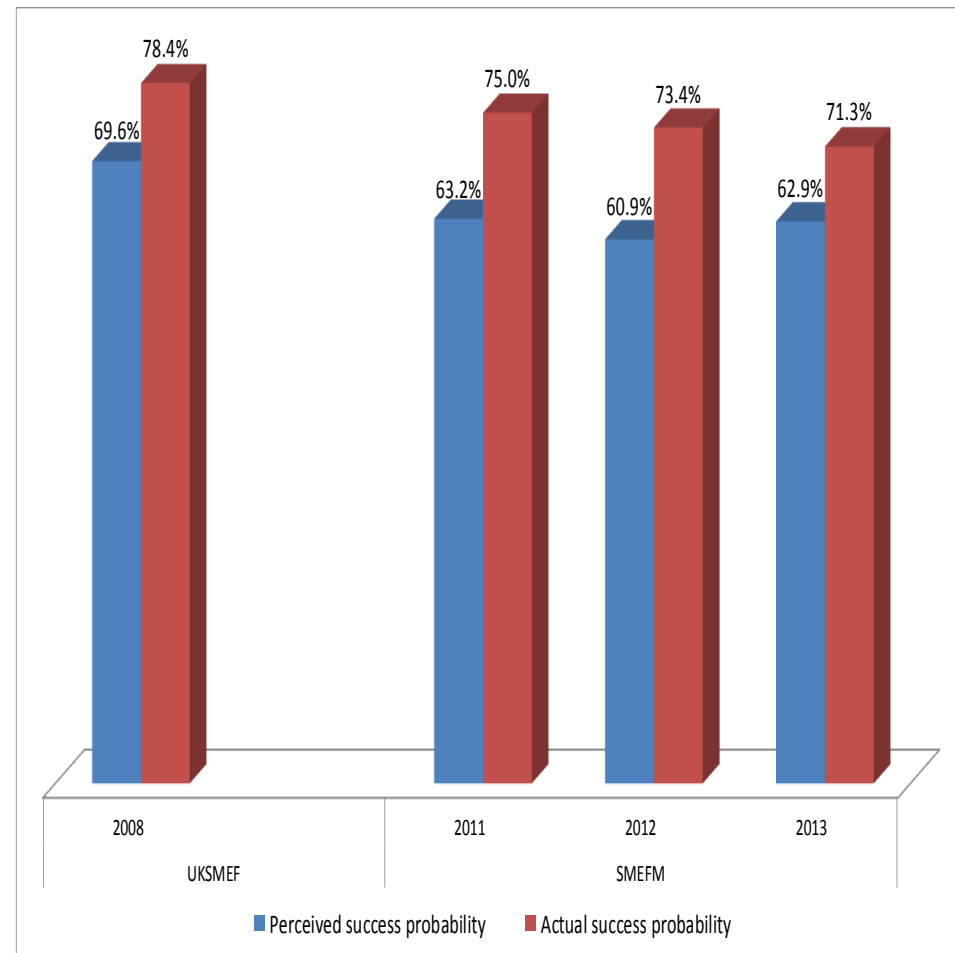
Understanding borrowing decisions

- Decisions to seek funding depend on:
 - ‘Needs’ – higher for more productive/ambitious entrepreneurs (given cost).
 - ‘Perceptions’ – that the search will be successful.
- ‘Needs’ and ‘perceptions’ divides the SME population into four groups...



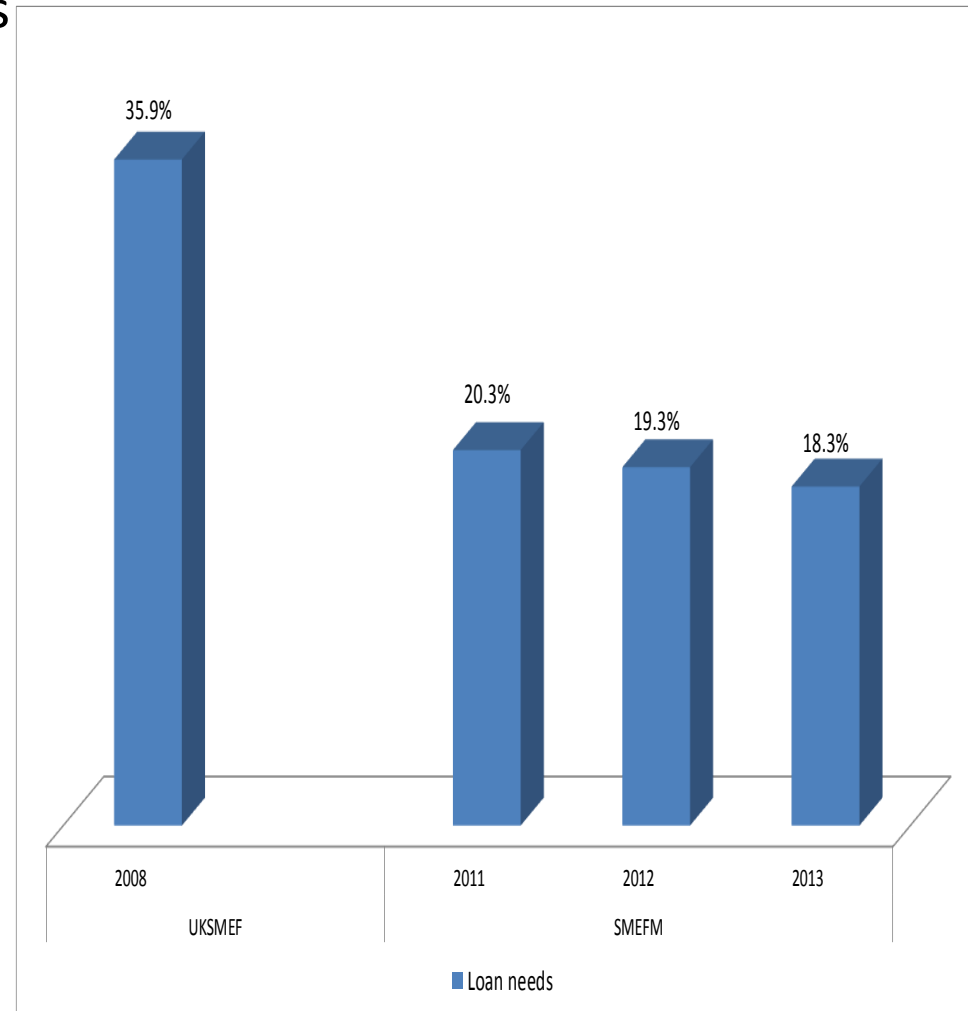
Perceptions

- Since 2008 business have tended to under-estimate chances of obtaining a loan.
 - Increase in non-seekers.
- Why?
 - Economic climate/uncertainty ✓
 - Issues with financial relationships ✓
 - Media reports ✗
- Awareness of lending support initiatives encourage businesses to seek funding
 - Lending Code/Principles ✓
 - Independent Appeals Process ✓



Needs

- % of businesses with loan needs fallen significantly since 2008.
 - Increase in non-seekers.
- What affects needs?
 - Cost/business characteristics (size/age) ✓
 - Economic climate/uncertainty ✓
 - Growth intentions/ambition ✓
 - Debt aversion ✓
- Encouraging more seekers requires improving perceptions and raising needs/ambition.
 - FLS (change in focus) may help with cost/availability...
 - but also need for better signposting to non-bank funding where more appropriate.



Into the unknown...

- If/when demand rises important that SMEs have access to a range of appropriate sources of finance.
 - Funding gaps may constrain growth.
 - Financial constraints bite most in early phases of recovery.
 - Identifying (nature of) gaps and impact on growth crucial for policy-makers.
- Why do entrepreneurs prefer some sources of finance over others?
 - Simply issue of cost/availability?
 - Are there cognitive/behavioural barriers?
- ERC research suggests building boards with the right skills/experience/networks may
 - Help entrepreneurs find the best sources of finance,
 - and make best use of it.
- But more research is required...