

*ERC Showcase*  
*7<sup>th</sup> March 2019*



# **The cost of discouragement**

Stuart Fraser  
Stephen Roper  
Anastasia Ri  
Mark Hart

# Research questions

Finance

Investment

Performance

## “Investment for the future”

- What factors shape SMEs’ willingness to invest?
- How do different types of investment influence firm performance?
- How do different funding mechanisms shape these effects?

*starting point.*

How do financial constraints affect small firms performances ?

Fraser, Peng, Roper (2018) “Missing links: what mechanisms connect financial constraints to the performance of small firms”

“Internal finance approach”

“Funding gap approach”

How financial constraints affect small firms performances?

Financial status  
of a firm in **2015**

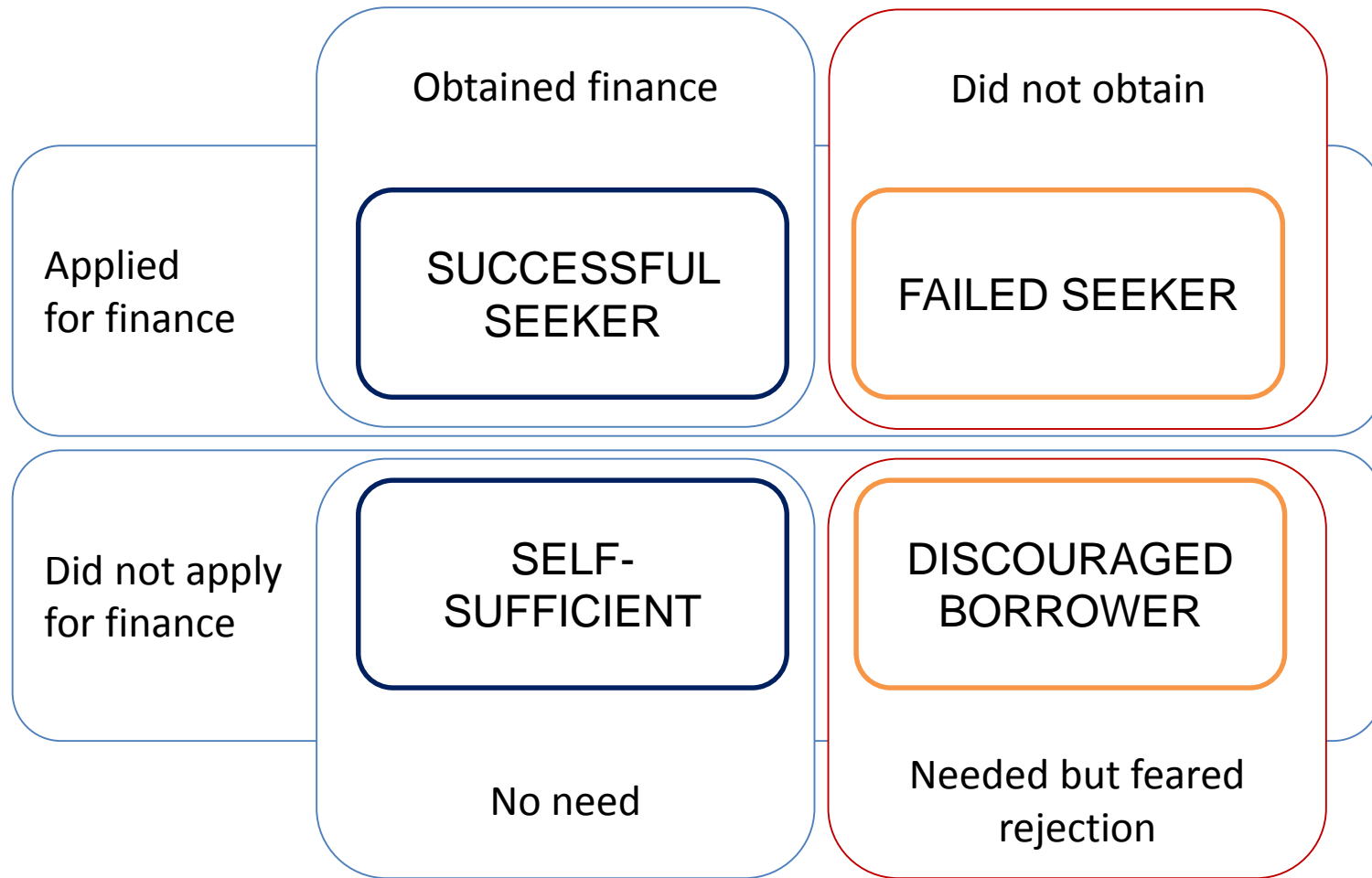
?

Productivity  
of a firm in **2016**

Mechanism?

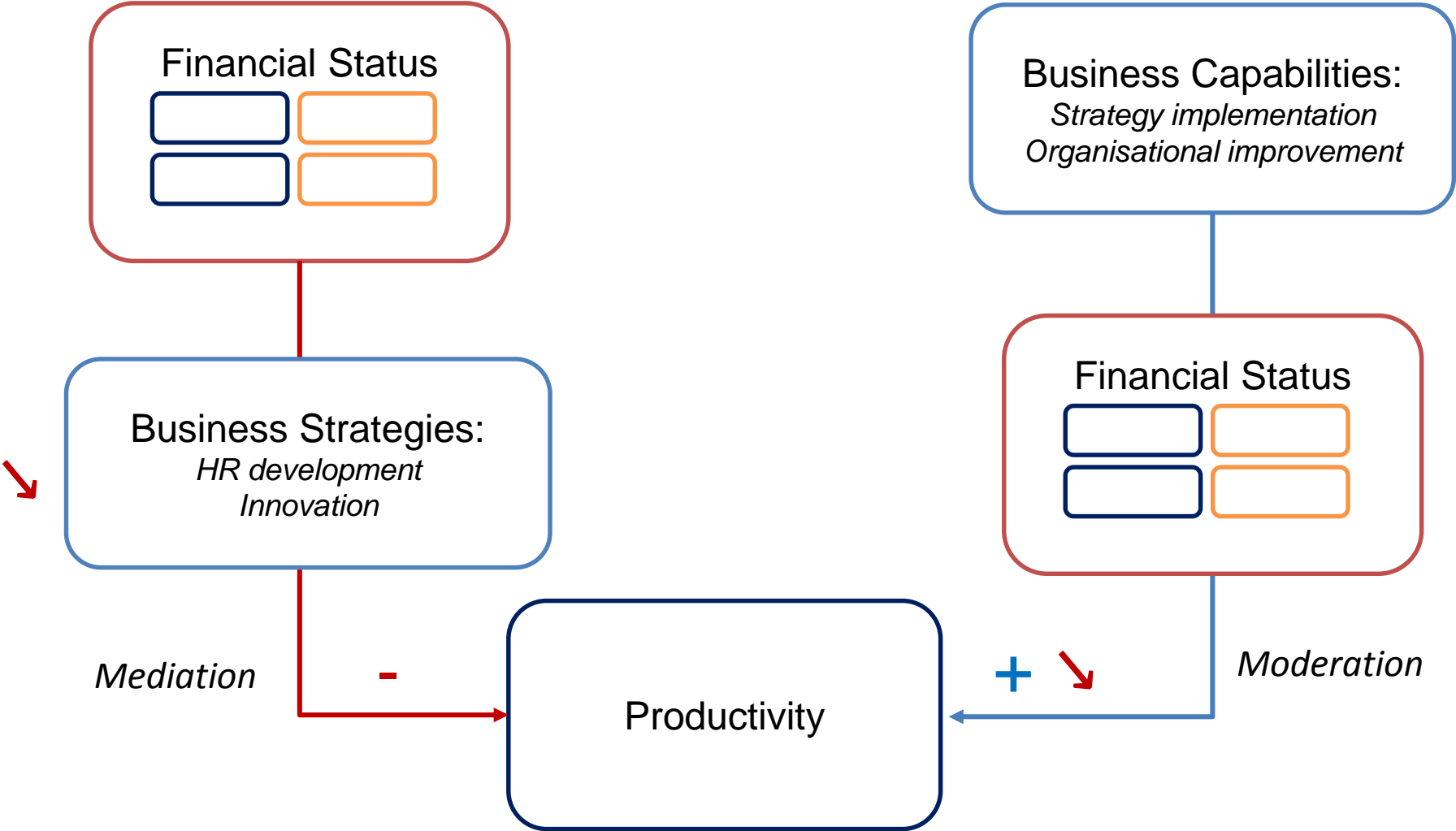
*Longitudinal  
Small  
Business  
Survey  
2015 and 2016 waves*

# Financial status



Financially constrained

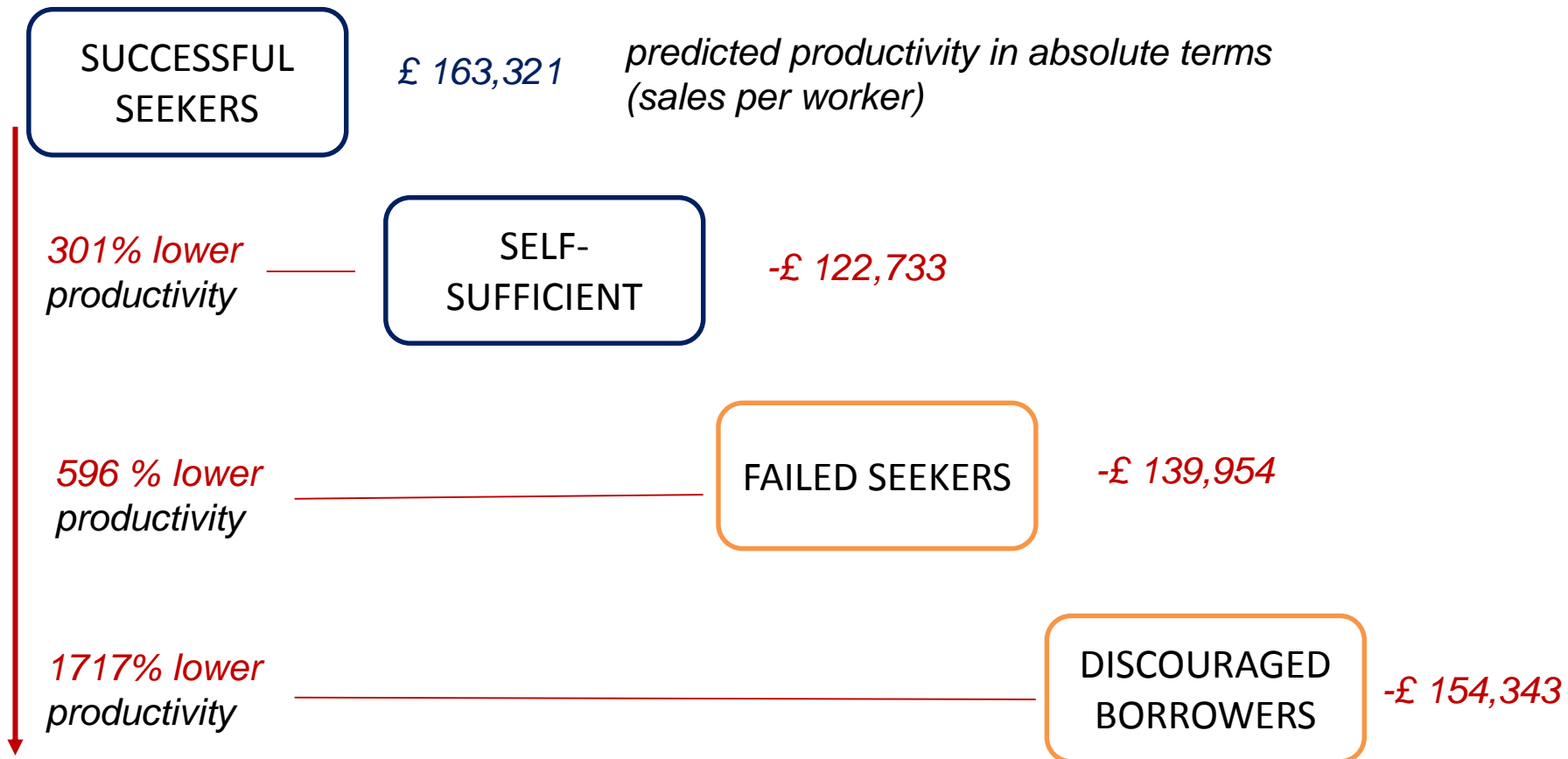
# Mediation and Moderation Mechanisms



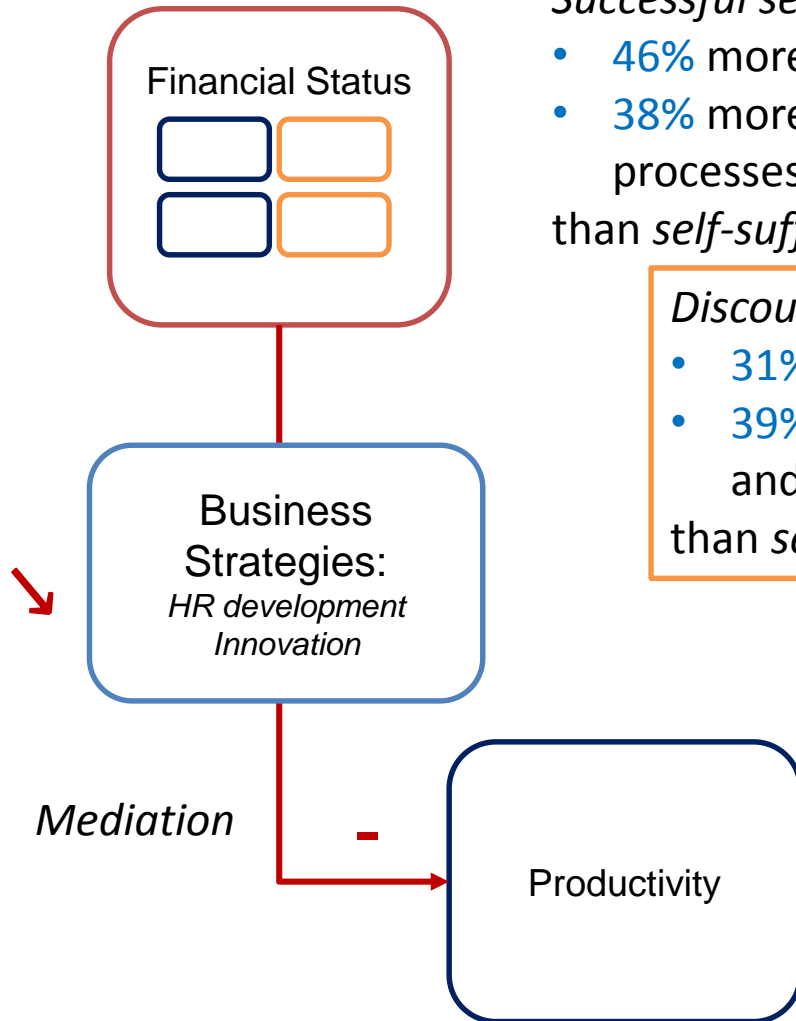
# Results

## Financial status affects performance:

*Discouraged borrowers* have significantly lower, and *successful seekers* have significantly higher, productivity compared to *self-sufficient firms*.



# Results: Mediation



*Successful seekers are*

- 46% more likely to increase workforce skills
- 38% more likely to introduce new products, services and/or processes

*than self-sufficient firms*

*Discouraged borrowers are*

- 31% more likely to increase workforce skills
- 39% more likely to introduce new products, services and/or processes

*than self-sufficient firms*

*Failed seekers are*

- 45% more likely to increase workforce skills
- 54% more likely to introduce new products, services and/or processes

*than self-sufficient firms*

**Necessity spurs on financially constrained firms to implement business strategies!**

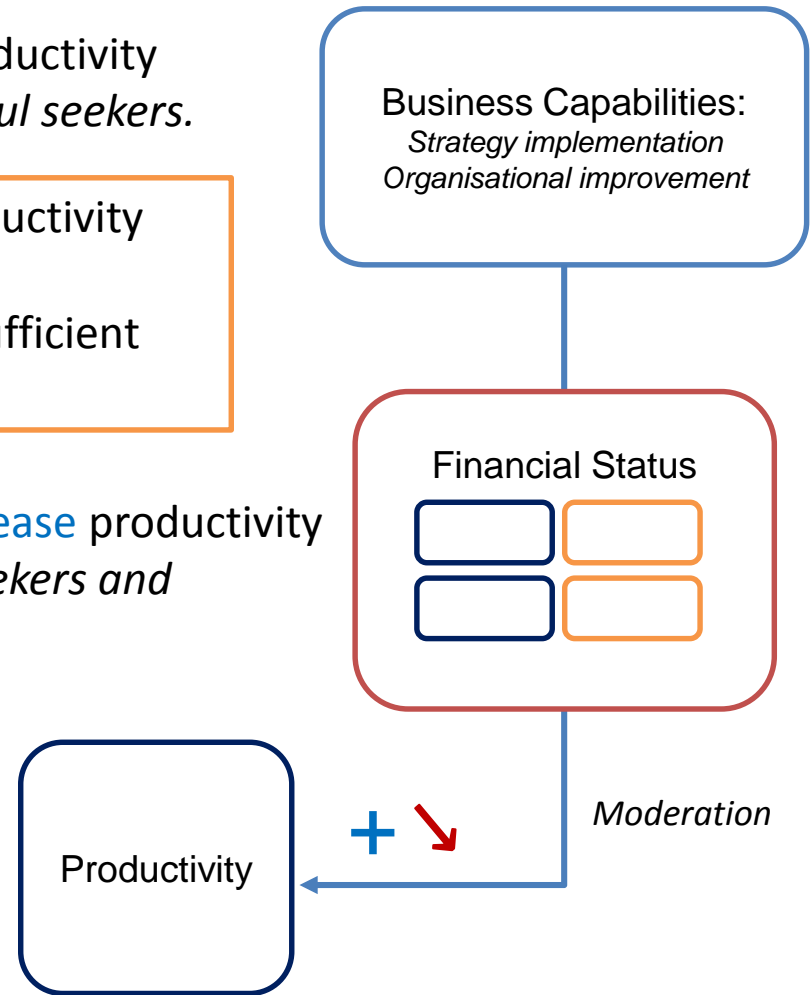
# Results: Moderation

High business strategy capabilities **increase** productivity by **14%** among *self-sufficient firms* and *successful seekers*.

High business strategy capabilities **reduce** productivity by **17%** among *discouraged borrowers* and by **59 %** among *failed seekers* relative to self-sufficient firms and successful seekers.

High operational improvement capabilities **increase** productivity by **9%** among *self-sufficient firms*, *successful seekers* and *discouraged borrowers*.

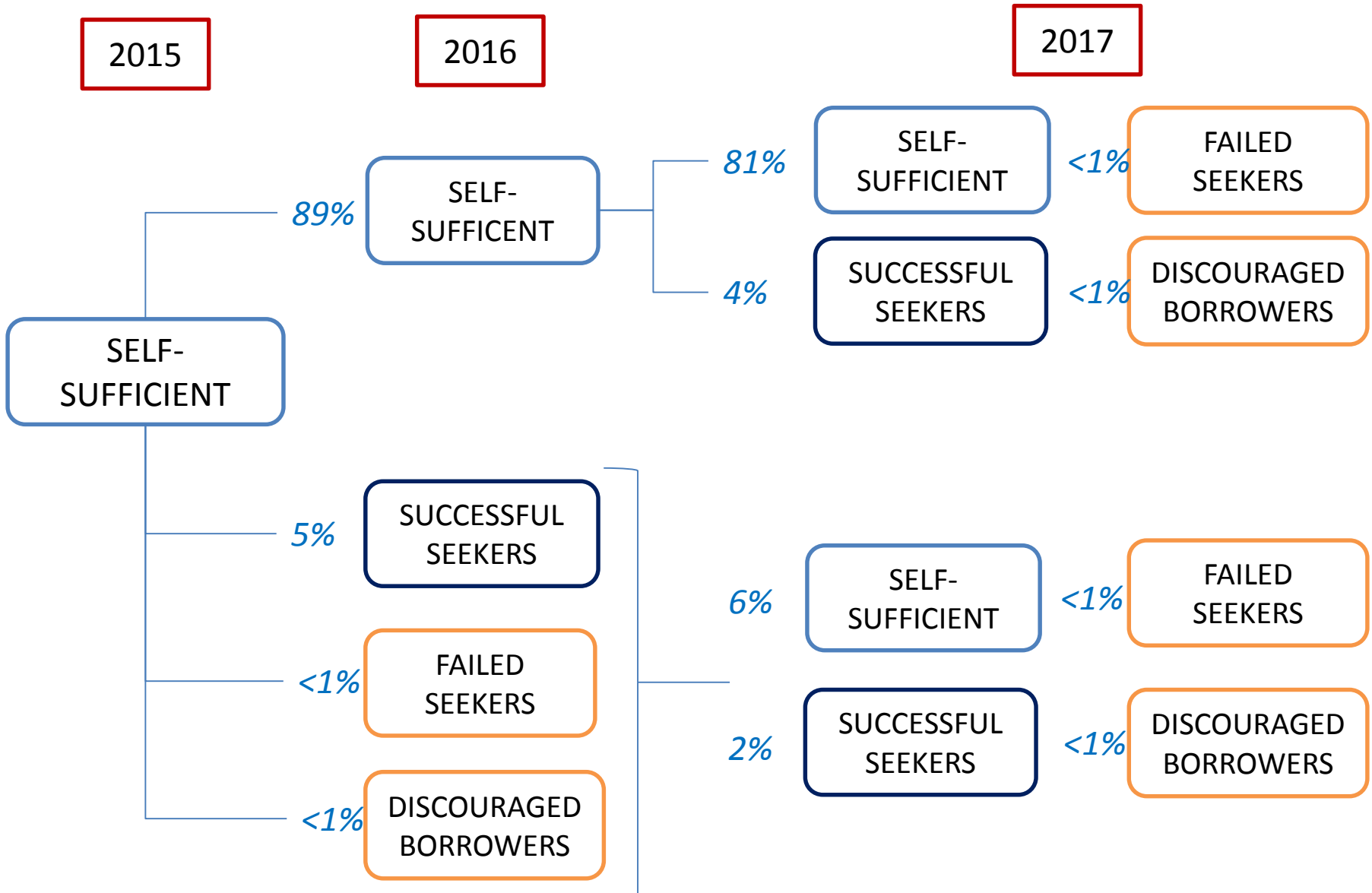
High operational improvement capabilities **reduce** productivity by **59 %** among *failed seekers* relative to self-sufficient firms and successful seekers.





# Preliminary results:

## transitions in financial status from year to year



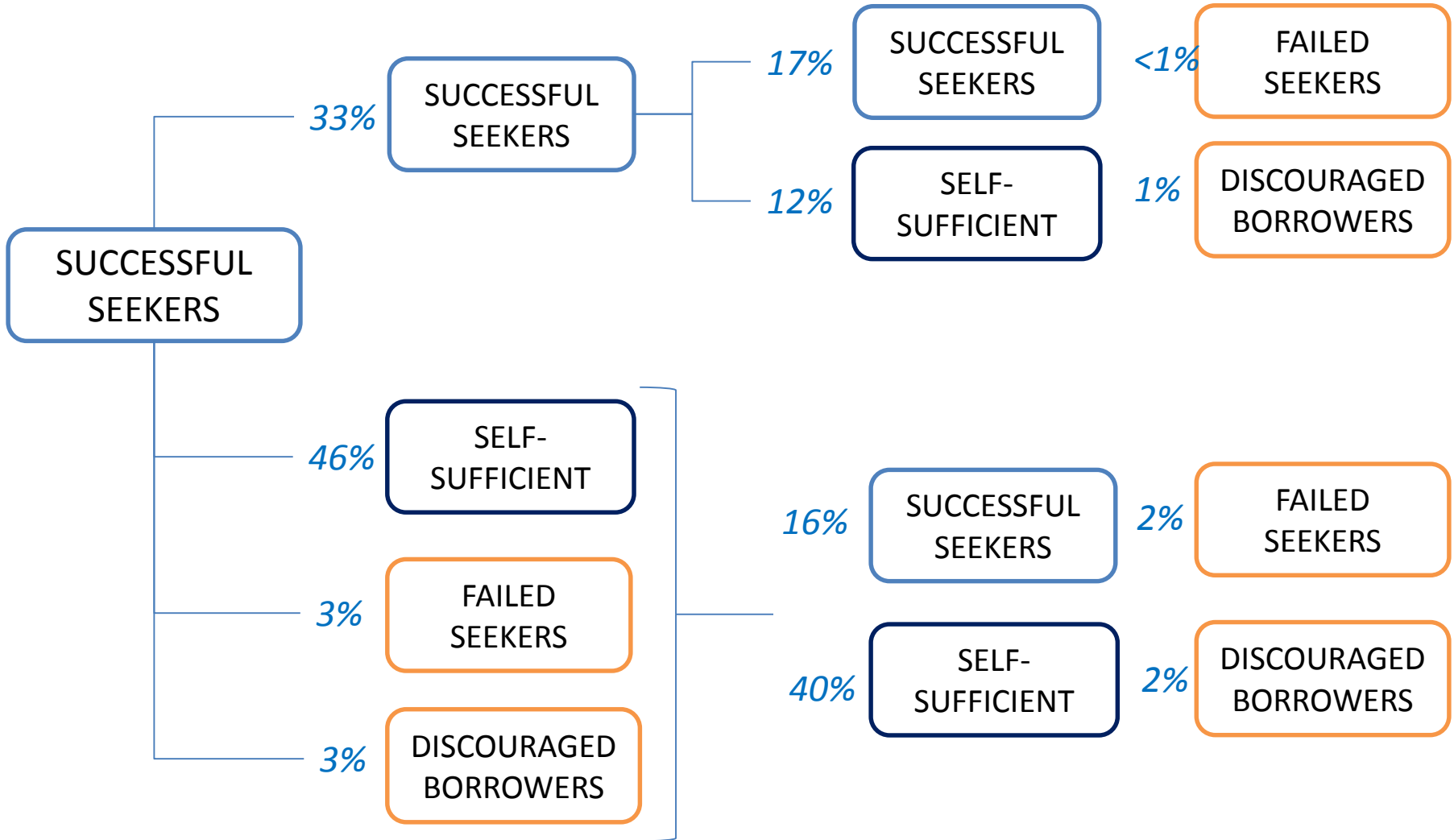
# Preliminary results:

## transitions in financial status from year to year

2015

2016

2017



# Preliminary results:

## transitions in financial status from year to year

2015

2016

2017

FAILED SEEKERS

FAILED SEEKERS

FAILED SEEKERS

DISCOURAGED BORROWERS

SELF-SUFFICIENT

SUCCESSFUL SEEKERS

SUCCESSFUL SEEKERS

SELF-SUFFICIENT

DISCOURAGED BORROWERS

FAILED SEEKERS

DISCOURAGED BORROWERS

SELF-SUFFICIENT

SUCCESSFUL SEEKERS

12%

3%

3%

0%

0%

23%

3%

48%

40%

7%

17%

18%

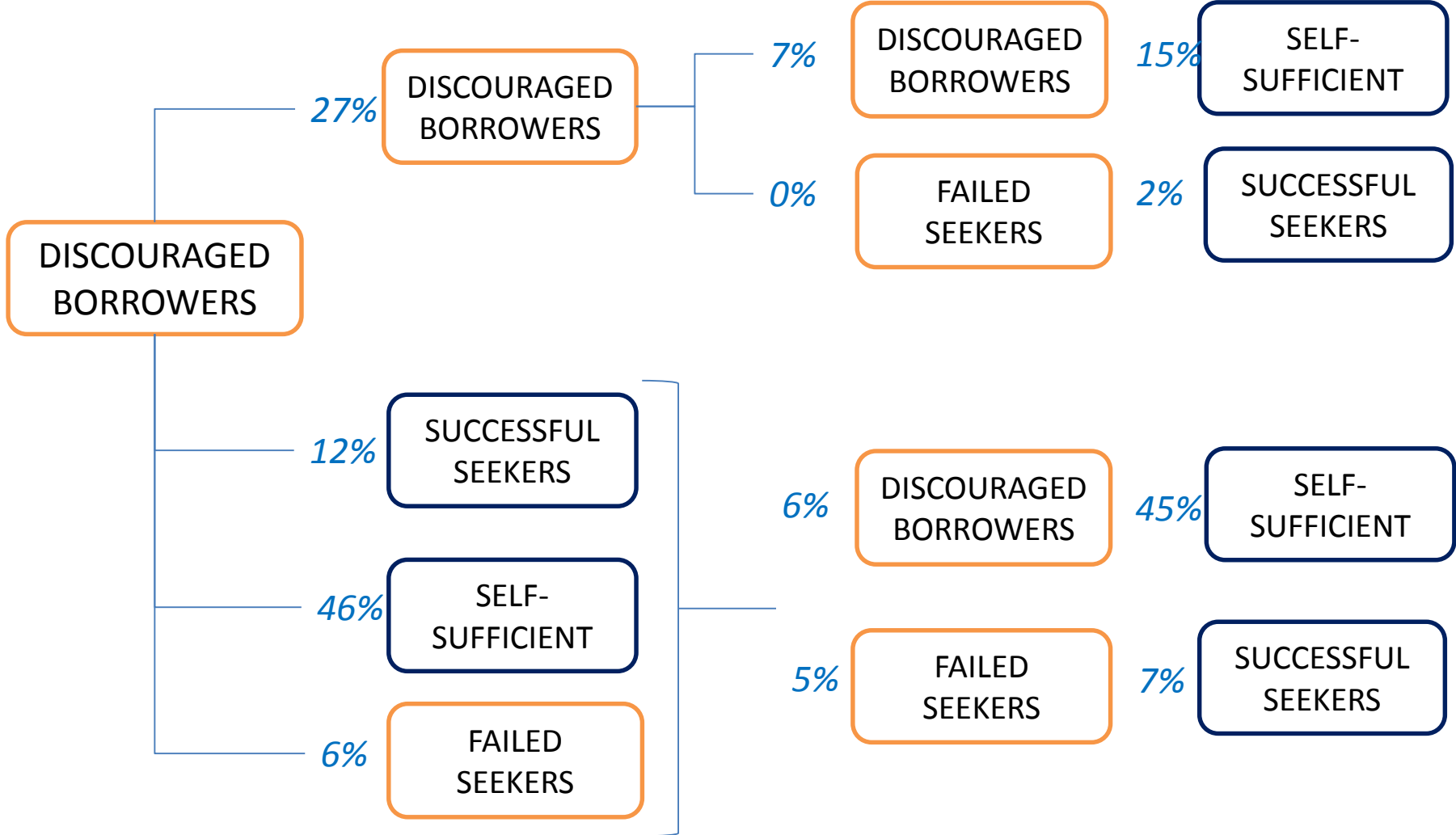
# Preliminary results:

## transitions in financial status from year to year

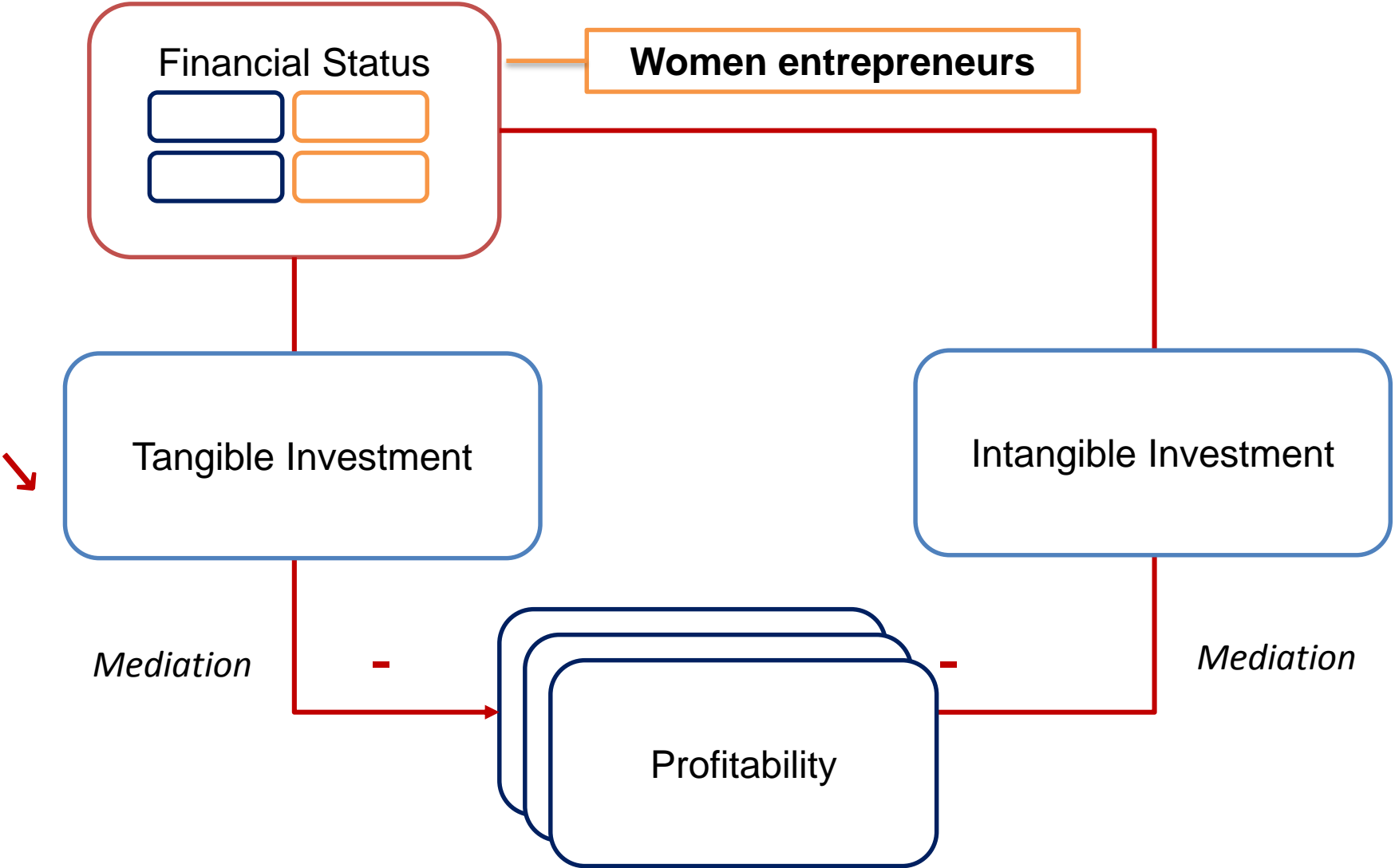
2015

2016

2017



# Further steps: testing other mediating mechanisms



# Thank you

If you would like any more information please contact

Associate Professor, Dr Stuart Fraser ([Stuart.Fraser@wbs.ac.uk](mailto:Stuart.Fraser@wbs.ac.uk))

Dr Anastasia Ri ([a.ri@aston.ac.uk](mailto:a.ri@aston.ac.uk))

More details about the work of the ERC and our latest events can be found at:

[www.enterpriseresearch.ac.uk](http://www.enterpriseresearch.ac.uk)