

# [Sources of finance for small and medium enterprises](https://assignbuster.com/sources-of-finance-for-small-and-medium-enterprises/)

Sources of Finance for Small and Medium Scale Entrepreneurs in the United Kingdom 2

### ABSTRACT

This study examined the factors or determinants of successful small and medium

entrepreneurs in the United Kingdom and the sources of financing for them. As such, the

following research questions will be answered:

1. What are the determinants to become small and medium successful entrepreneurs in

the United Kingdom?

1. What are the characteristics of independent small business owners and medium scale

entrepreneurs in the United Kingdom?, and

1. What are the sources of financing for them in the United Kingdom?

The study found that sample United Kingdom small scale and medium scale entrepreneurs

revealed that the motivations for small scale entrepreneurs are more on the pull factors or

intrinsic factors or rewards while the medium scale entrepreneurs are more on the extrinsic

factors or rewards. The small scale entrepreneurs displayed a low entrepreneurial orientation

while the medium scale entrepreneurs showed high entrepreneurial orientation.

Moreover, the prior industry experience and previous business connections of small scale

entrepreneurs are limited while the medium scale entrepreneurs are more extensive. Also, the

medium scale entrepreneurs have extensive external support networks while their small scale

counterparts are limited.

Finally, the sources of funds for small and medium enterprises in the United Kingdom

are mainly from bank financing and self-finance from savings especially during the first two

years. However, after two to five years they borrowed from banks

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### Chapter 1

### INTRODUCTION

### BACKGROUND

Small businesses are now well recognized and acknowledged as important and pivotal

contributors to economic development, job creation, both nationally and internationally. Many

countries have now understood the significance of the small business and are now giving

emphasis to it for creation of jobs, innovation and the long term development of economy.

In fact, bulk of enterprises in all economies across the world is constituted by the small firms

and companies. Such, small companies also majorly contributes to private sector output and

employment, one which appears to be increasing over time.

An entrepreneur is no doubt a pure risk taker who creates value by offering products and

services. They provide momentum for the change, innovation and progress in the economy.

Entrepreneur is the one who has the knack of introducing new ideas in the market and they are

often keen to change the traditional strategies and approach, if necessary. An entrepreneur is

someone who can imagine the financial risk in starting up a new business and has the ability to

capitalize the opportunity of benefit to an enterprise. An entrepreneur is very creative, skilful,

innovative and always keen to explore new ideas and strategies.

The traits suggested by previous empirical research which describe entrepreneurs are: (1)

high need for achievement (Decarlo & Lyons, 1979; Hornaday & Aboud, 1971; among many

others); (2) internal locus of control (Hornaday & Aboud, 1971; Miller, 1983); (3) high need for

independence and effective leadership (DeCarlo & Lyons, 1979; Hornaday & Aboud, 1971); (4)

high need for autonomy (DeCarlo & Lyons, 1979; Sexton & Bowman, 1983, 1984); (5)

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information processing capability (McGaffey & Christy, 1975); (6) preference for moderate level

of risks (McBer & Co., 1986); (7) low conformity (DeCarlo & Lyons, 1979; Sexton & Bowman,

1983, 1984); (8) aggression, support, and benevolence (DeCarlo & Lyons, 1979); (9) energy

level, risk-taking, and change (Sexton & Bowman, 1983, 1984); (10) dominance, endurance,

innovation, self-esteem, low anxiety level, and cognitive structure (Sexton & Bowman 1983);

and (11) low interpersonal effect, social adroitness, low harm avoidance, and low succorance

(Sexton and Bowman, 1984).

Thus, this research concentrates upon the reasons influencing individuals to become

entrepreneurs and the sources of financing available for them in United Kingdom.

### PROBLEM STATEMENT

This study will examine the factors or determinants of successful small and medium

entrepreneurs in the United Kingdom and the available sources of financing for them. As such,

the following research questions will be answered:

1. What are the determinants to become small and medium successful entrepreneurs in

the United Kingdom?

1. What are the characteristics of independent small business owners and medium scale

entrepreneurs in the United Kingdom?, and

1. What are the sources of financing for them in the United Kingdom?

### THE OUTLINE AND CONTRIBUTIONS OF THE RESEARCH STUDY

This study is organized into five chapters. Chapter one discussed the introduction and

background of the study, it also presents the statement of the problem, research purpose, research

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objective, the outline and contributions of the research study, definition of terms, and the

methodology of the study.

Chapter two reviews the literature and Chapter three explains the methodology of the study.

Chapter four presents the analysis of the study, and finally Chapter five summarizes and

concludes the study.

The contribution of this study to theory is that there is yet no research regarding determinants

for successful small and medium and the available sources for them in the United Kingdom. As

such, this study will be a big contribution since it fills this gap.

### DEFINITION OF TERMS

Extrinsic Factors. Motivation of entrepreneurs usually due to external factors such as earning an

income and be recognized as successful by other people.

Intrinsic Factors. The motivation of entrepreneurs and franchisors to go into business due to

internal determinants such as achievement, power, and competence.

Achievement Motivation. This is the motivation drive which is due to the need of people to

achieve something significant in his life.

Power Motivation. This is the need of an individual to acquire influence and control over other

people.

Competence Motivation. This is the need of an individual to be efficient and competitive in his

business and work.

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### METHODOLOGY

Research Strategy

The researcher will conduct interviews with the respondents in the areas listed in the table

below:

The areas of interviews will be conducted by the researcher on motivations which will

identify the kind of motivation that predominate small and medium business entrepreneurs. Their

entrepreneurial orientation will also be assessed and also their work/life balance.

The education level and age will also be identified for the respondents so as to determine

whether these factors are significant. Their prior industry experience will also be assessed as well

as their prior access to business networks and external support networks.

Table 1

Characteristics Small scale entrepreneurs Medium scale entrepreneurs

Motivations

Entrepreneurial Orientation

Work/family balance

Education level

Age

Prior industry experience

Previous connections to business networks

External support networks

Sources of Financing

Secondary Research

The sources of available financing for small and medium scale enterprises in the United

Kingdom will also be identified and analyzed.

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Primary Research

An interview questionnaire was designed and sent to forty (40) sample entrepreneurs wherein

twenty are small scale entrepreneurs and another twenty of them are medium-scale entrepreneurs

in the United Kingdom. Time is at a premium and a questionnaire could be fitted in around other

activities. This approach was not a preferred option – it was more a pragmatic solution to getting

the information and involvement of key entrepreneurs.

The interview covered the same themes of the questionnaire. The aim being to give me the

freedom to explore areas more deeply as appropriate. People do tend to give you more

information and expand in a discussion rather than the limited responses gained from

questionnaires.

Other methods considered were:

Multi Disciplinary Focus groups

This was discounted as it would have been difficult to organise logistically.

Telephone interviews

This was discounted as it was felt that a telephone interview to start with would be a bit

impersonal, there is the potential to use them for a follow up to the questionnaire. This was not

used as the return of the questionnaires was sufficient to provide helpful information at this

stage.

Questionnaires to the whole organisation

This was discounted as there is a certain amount of question fatigue. The relevance of

consulting all staff would not be relevant as the key person to interview is the owner himself..

Data Collection

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The collection of data will be done through interviews from the respondents.

Data Analysis

The data will be analyzed by reviewing the voice recording in the interviews and through the

notes of the researcher which will be written according to the guidelines in Table 1.

These interview questions were answered and this was all saved in a recorder. The researcher

evaluated all these answers in the recorder and replayed it repeatedly in order to analyze their

insights and views. This evaluation and analysis were then written by the researcher in the

analysis and findings as well as quoted the interviews of the owners as evidences of the findings.

Interview Form

Dear Respondent,

The researcher is conducting a study on small and medium scale enterprises in the United

Kingdom as a requirement for his academic degree in the university. It would be appreciated if

you can answer the following interview questions:

1. What are your motivations when you started as an entrepreneur? What are your

motivations today as an entrepreneur?

1. What are your entrepreneurial orientations?
2. How is your work/family balance?
3. What is your education level?
4. How old are you?
5. What are your prior industry experiences before going into entrepreneurship?
6. What were your previous connnections to business networks?
7. Sources of Finance for Small and Medium Scale Entrepreneurs in the United Kingdom 10
8. What are your external support networks? and
9. What are the sources of financing?

### Summary

Thus, this study will be conducted by utilizing literature review as a research tool and

complimented by exploratory research through survey/interview the respondents.

### Chapter 2

### REVIEW OF LITERATURE

### Introduction

Small businesses are now well recognized and acknowledged as important and pivotal

contributors to economic development, job creation, both nationally and internationally. Many

countries have now understood the significance of the small business and are now emphasizing it

for creation of jobs, innovation and the long term development of economy.

In fact, bulk of enterprises in all economies across the world is constituted by the small firms

and companies. Such, small companies also majorly contributes to private sector output and

employment, one which appears to be increasing over time.

Entrepreneur

Entrepreneur is no doubt a pure risk taker who creates value by offering products and

services. They provide momentum for the change, innovation and progress in the economy.

Entrepreneur is the one who has the knack of introducing new ideas in the market and they are

often keen to change the traditional strategies and approach, if necessary. Entrepreneur is

someone who can imagine the financial risk in starting up a new business and has the ability to

capitalise the opportunity of benefit to an enterprise. An entrepreneur is very creative, skilful,

innovative and always keen to explore new ideas and strategies (Adler, 2002; Aldrich, 1989;

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Alstete, 2003; Anderson et al, 1992; Anna et al, (1999). For more of entrepreneurship please see

Belcourt et al. (1991); Bennett & Dann (2000); Bird (1989); Birley & Westhead (1994).

Research on Entrepreneurial Traits

The traits suggested by previous empirical research which describe entrepreneurs are: (1) high

need for achievement (Decarlo & Lyons, 1979; Hornaday & Aboud, 1971; among many others);

(2) internal locus of control (Hornaday & Aboud, 1971; Miller, 1983); (3) high need for

independence and effective leadership (DeCarlo & Lyons, 1979; Hornaday & Aboud, 1971); (4)

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of risks (McBer & Co., 1986); (7) low conformity (DeCarlo & Lyons, 1979; Sexton & Bowman,

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innovation, self-esteem, low anxiety level, and cognitive structure (Sexton & Bowman 1983);

and (11) low interpersonal effect, social adroitness, low harm avoidance, and low succorance

(Sexton and Bowman, 1984).

Yonekura (1984) proposed that the following characteristics: “ assertiveness, insistence,

forward-looking, critical thinking, creativity, innovation, continuity, preparedness, responsibility,

open-mindedness, etc. Burch (1986) mentioned nine salient traits, which dictated a high

propensity for one to behave entrepreneurially. They are: a desire to achieve, hard work,

nurturing quality, able to accept responsibilities, reward oriented, optimistic, excellence-oriented,

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an organizer, and money oriented. (http://www. airiatech. com/personal-traits/computertechnology/

yonekura. html).” As such, entrepreneurs possessed those traits mentioned in order to

be successful in business.

The reasons for people to go into entrepreneurship is an area which is widely researched in

the area of management (Walker, 2004). Majority of these studies suggests that people are

motivated by personal and financial reasons like achievement need, independence, and the

creation of wealth (Bird, 1989; Birley and Westhead, 1994; Burns, 1996; Hisrich, 1986; Kuratko

et al., 1997). Generally, most of the studies suggest that personal internal reasons are more

important motivations as compared to financial reasons in going into entrepreneurship. (Gray,

1993).

Apart from the impact of personal and financial goals on organizational choice, an individual’s

perception of his or her present job situation may influence small business adoption. Difficulties

experienced within the organization such as their thinking that it lacked opportunities and that

their pay were low and not commensurate to their performance pushed them to start their own

businesses (Moore and Buttner, 1997). Furthermore, those who have no work also forced them to

become entrepreneurs (Still and Guerin, 1991), even though the clarity of the entry of business

and its form are not that clear to them at the start (Praag, 2003; Vodopivec, 1998; Walker, 2004;

Walker and Brown, 2004; Burke et al., 2002; Burns, 1996; Buttner & Moore, 1997;

Process of Starting Up the Business

The entire work culture and scenario of the small and medium business has improved a lot in

the last few years. Success or failure of any business depends on its start up. This is the first and

most vital step which decides the future of enterprise. All other steps are secondary, but

establishment of the firm should be done carefully, so that it can grow and develop to its full

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potential (Carter et. al., 1996; Carter & Anderson, 2001; Carter & Cannon, 1988; Chaganti &

Parasuraman, 1996; Cliff, 1998).

The steps involved in the business start up can be classified as:

Business Start Up

In this section, we will consider both theoretical and practical aspects. Variation between

theories of starting up a business and practical situation faced by the owner will be highlighted

here (Coleman, 1988).

It is quite likely to have difference in the theories and practical aspects, which are as follows:

Formation of idea

Theory- An entrepreneur has the idea of business before starting up any activity. This step is

very important because each and every aspect of business is considered in it. This step is also

very important because every pros and cons of the particular business is decided at this stage

(De-Bruin & Lewis, 2004; Deakins & Whittam, 2000).

Opportunity Recognition

The entrepreneur must be able to recognize opportunities for business and this is not an

easy task. Opportunity might result from certain trends in the market such as the need for a new

product or service (Kotler, 1972; Deshpande, 1983).

Market Research and Business Plan

It is quite likely to have difference in the theories and practical aspects, which are as follows:

he should carry out the SWOT Analysis to analyse the strength, weakness, opportunity and threat

in his business (Kotler, 1990; Dyer, 1994).

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Arrangement for Finance

There are various sources of finance available for the entrepreneur and the small and medium

sized firm. However, in the simplest way, it can be classified as the internal and external source.

Internal sources of finance include the personal equity of the entrepreneur, usually in the form of

savings, remortgages or perhaps money raised from family and friends (Feldman & Bolino,

2000; Fielden et al., 2003; Fitzgerald and Muske, 2002; Leazar, 2002).

Usually, in the small and medium firms, there is highest possibility that the major fraction of

the total finance is contributed by the internal sources like family and friends (Lee & Mathews,

1999; Hisrich, 1986).

On the other hand, banks, equity from venture capitalists and informal investors and short

term trade credit are the external sources of finance. Other external sources are leasing, hirepurchase

and factoring (Anderson, 1997).

Optimum Use of Resources

To make any business successful and for its best possible growth and development, optimum

and proper use of the resources is very important. In small towns, where business activity is less

as compared to cities, the small business owner’s ability to mobilize and gather the required

resources from their environment becomes vital (Gimeno, 1997; Gray, 1993; Gatewood et al.,

1995; Gundry & Welsch, 2001) Moreover, such areas are viewed as being lean in terms of those

resources associated with the business start up. They are portrayed as being distanced from main

markets and main centres of business activity, have lower and more dispersed population, a

weaker infrastructure, local markets are limited due to lower population.

“ Despite the apparent difficulties in starting up and running a business to towns, the number of

businesses has grown”. (Anderson, 1997)

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Problems in Starting Up a Business

When starting up a business, the owner is bound to face some problems. There are basic

steps and procedures that should be followed by the entrepreneur, while starting a business. But

the problem arises when the successful implementation of these steps becomes difficult, due to

the problems in the market. Sometimes things do no happen in reality as they were expected and

also it may take longer time than expected (Martins et al., 2002; Marschack, 1994; Morrison,

2000; Olson, 1992; Praag, 2003; Rainbird, 1991).

Major problems in starting up a business can be classified as:

* Goodwill- When a business is new, it lacks good reputation in the market, which is called

Goodwill. In business, it is very important to have goodwill. It means that the business has

trustworthy image in the market. Sometimes, just because of lack of goodwill, customers don’t

trust the company (Reynolds, 2000; Robichaud et al., 2001).

* Market Prediction- It is essential for the entrepreneur to have the market predictions. The

market trends keep on fluctuating. Thus the entrepreneur has to mould himself according to the

market situations. If he does not maintain pace with the market trends it becomes very difficult to

be in the race. This is not a very easy job (Robinson, 1994; Shane, 1995; Smith, 2000).

* Financial Gap- The existence of a financial gap arises because demand from small firms is

greater than the willingness of financial institutions to supply the finance at current market

conditions. For finance such as bank loans, these gaps may be termed as credit rationing

(Stanworth & Stanworth, 1997).

* Getting the premises in prime location- Getting a good location to set up the business is a very

big issue. The entrepreneur should keep in mind to get the best location. If the location is good

and is very close to all the available resources then he can grab the opportunities of using these

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resources (Taylor, 1980).

* Judging the customer expectations- It is very hard to match the ever changing expectation and

demands of the customers. It is very difficult to have an exact idea about the choice of the

customers. In this case it becomes very difficult for the new firms to have an idea about the

customer expectations (Timmons et al., 1985).

Growth of the Firm

Greiner’s Growth Phases Model describes the Framework which helps in understanding why

certain Management styles, Organizational structures and Coordination mechanisms work in

some phases and why these don’t work at certain phases in the development of an Organization.

In 1972, Larry E. Greiner originally proposed this model with five phases of growth and more

recently he added a sixth phase to his model (Harvard Business Review, May 1998). Each phase

has a particular management style, faces specific problems, and each phase has been dominated

by particular management style to achieve growth. This model suggests the organizations to go

through the 6 stages of growth and need appropriate strategies and structures to cope up

(http://www. mindtools. com/pages/article/newLDR\_87. htm).

Phase 1: Growth through Creativity

This phase comes at the start-up stage of a company. In this phase, entrepreneurs of the firm

will be busy in production and opening up markets. As there will be less staff, very hard work is

required and the informal communication will work. This phase ends with a Leadership Crisis.

New professional management people will be brought in (Walker & Brown, 2004).

Phase 2: Growth through Direction

In this phase, growth continues in an environment of more formal and functional Organization

structure, Accounting, Capital management, budgets and focus on separate Standardized

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processes like marketing and production. Incentive schemes will be introduced as a financial

reward. This phase ends with an Autonomy Crisis: New structures based on delegation are called

for (http://www. mindtools. com/pages/article/newLDR\_87. htm; Walker, 2004).

Phase 3: Growth through Delegation

The Organization continues to grow with a decentralized organizational structure. The top

management just monitors and deals with the big issues, where the mid-level managers freed up

to react fast to opportunities for new products. In this phase the operational and market level

responsibility increases and formal communication will be maintained. This phase ends with a

Control Crisis: More sophisticated functioning from the head office is required and business

need to work together ( http://www. mindtools. com/pages/article/newLDR\_87. htm).

Phase 4: Growth through Coordination and Monitoring

Growth continues with the formation of product groups, thorough review of formal

planning, centralization of support functions. Corporate staff will be hired for the oversees

coordination. Investment finance is allocated centrally and managed according to Return on

Investment (ROI). Incentives are shared through the lower level of company in order to motivate.

This phase ends on a Red-Tape Crisis: A new culture and structure must be introduced (Birley &

Westhead, 1994).

Phase 5: Growth through Collaboration

In this phase, new evolutionary paths are introduced. The previous formal controls are

replaced by decentralized support staff to deliver projects in a matrix structure supported by

sophisticated information systems and team-based financial rewards. This phase ends with a

crisis of Internal Growth: Partnerships with complementary organizations is required (Greiner;

Birley & Westhead, 1994; Burns, 1996).

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Phase 6: Growth through Extra-Organizational Solutions

Greiner’s recently added sixth phase to his model suggesting the organizations that growth

may continue through merger, outsourcing, networks of organizations and by involving other

companies (http://www. mindtools. com/pages/article/newLDR\_87. htm); Carter et al., 1996).

A Case Study of a Successful Entrepreneur

Dr. Naveen Parihar was born in 1963 in his home town Nagod, situated in Madhya

Pradesh, a State in India. He is a dental surgeon by profession. After his schooling, Dr. Parihar

took admission in BDS (Bachelor of Dental Surgeons), in 1982. After completing BDS from

Rukhmani Devi Dental College Lucknow, Uttar Pradesh, he worked with a private dental clinic

as a junior dental specialist, to gain some experience.

Later, Dr Parihar got the opportunity to join the renowned Birla Hospital, as a dental

specialist. He grabbed this offer because of the reputation of the Hospital and also because the

hospital was in district headquarters Satna, 25 Kilometres from his hometown Nagod.

He continued working with the Birla Hospital for 7 years. An entrepreneur to the core, Dr

Parihar was not enjoying the stereotypes life and then he decided to become self employed by

establishing his own business. As he was specialised in dentistry, he decided to stick to his skills

and start a business in this field. Later on, he did thorough market research and considered all the

aspects related to this business. He found out that establishing a dental clinic in the nearby

headquarters (Satna) would not be a fruitful idea because of the cut-throat competition and

saturation in the market. Therefore, he decided to open a clinic in his hometown (Nagod) itself.

The main aim of Dr Parihar, behind opening this clinic was to provide dedicated and quality

services to the local and nearby residents of the town. He always believed that the profit can only

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be achieved by providing good services to the customers (Patients).

Curewell Dental clinic was established in 8th, August, 2001. The clinic was set up in only

three rented rooms in a building, in which one room was waiting room for patients, the second

room was the meeting room and the other room was for the check up. The check up room was

equipped with essential surgical equipments like dental chair.

The owner was bound to face some problems by starting up a clinic in a small town. The first

problem faced by the owner was the lack of skilled helping hands in the town. Dr Parihar also

realised that hiring skilful assistants from the city would not be a very good decision, as it would

increase the start up cost of the clinic.

Also, he did not want to comprise with the quality and skills. Hence, Clinic was started with

limited helping hands and in its early stage there were only three skilled assistants in the clinic.

Belief of the Owner in Entrepreneurial Theory

As written in most of the theories, he has always kept the things simple and stuck to the

basics without forcing the things to get happen. Dr Naveen Parihar has the experience of almost

20 years, in this field. He set a goal to achieve profits and he was aware of the limitations of its

clinic in its early stage.

He has always been confident enough to take risk, creating and adopting new ideas in the

business, if necessary. If we talk about his qualities then he is highly specialised in his field and

has the ability to identify market trends. On the other hand, he is hard working, intelligent,

courageous and knowledgeable.

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Problems Faced By Curewell Dental Clinic

* Costly Dental equipments- It was one of the main issues in starting up a clinic as the dental

equipments are very costly. For Dr Parihar, cost of the equipments including dental chair was

half of the total start up cost. He also wanted to install latest and efficient equipments. Thus, for

him it was tough task to manage this.

* Registration of the clinic- To start any business in health and safety sector, it has to be

registered with the government section called ‘ Health and Safety Society’. Before getting

registered with this section, one needs to fulfil certain criteria. This can take few weeks or

months and can certainly delay the whole project.

It also requires lot of documentation before applying if the registration. Dr Parihar also suffered

the same problem and got the registration after two months.

* Marketing- It was the matter of concern for the owner as he was setting up his business in a

town. Thus, there were very limited chances of advertisement in th