Exploring the success and barriers to SME access to finance and its potential role in achieving growth

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EXECUTIVE SUMMARY

Research Questions

The primary objectives of the research were to examine: (i) the UK SME demand for external finance in terms of reasons for seeking, amount and types of finance sought; (ii) the level and reasons for borrower discouragement; (iii) the association between use of external finance and SME growth, and the characteristics of SMEs that are successful, growth oriented and discouraged.

Methodology

Our approach included initial quantitative exploration of the Longitudinal Small Business Survey (LSBS) 2015, a survey of 15,502 SMEs representing all types of SMEs in the UK. This initially included descriptive data, focusing on the external financing requirements of surveyed SMEs during the year prior to survey, examining key characteristics associated with finance access success, discouragement and growth orientation. Regression analysis was then used to sift out the key factors in relation to seeking external finance, success in accessing external finance (both overall and for different broad types of finance) and discouragement.

We then explored our key findings for greater explanatory insights through six qualitative semi-structured telephone interviews with frontline staff from Oxford Innovation responsible for assisting potential high growth and innovation focused SMEs with external financing.

Key Findings

There was widespread consensus between the descriptive analytical evidence from the LSBS 2015 and the qualitative business finance support provider interviews that obtaining external finance is significantly associated with SME

growth.

Almost one in ten (9%) surveyed SMEs were discouraged (i.e. had external financing needs but did not apply), a third of which had applied for finance in the year prior to survey but then gave up and revised down their growth aims. This indicated that some growth oriented SMEs may grow faster if they could gain timely access to sufficient external funding.

Almost one fifth (19%) of LSBS 2015 surveyed SMEs had sought external finance in the year prior to survey: mostly relating to bank finance (43% loans and 42% overdrafts), credit card finance (51%) and leasing (36%). There were signs that demand for equity (6.5%) and P2P finance (4%) is rising in substitution for bank finance for younger, smaller SMEs.

The main reasons for seeking external finance were for working capital (51%) and equipment (42%). Only 7% mentioned growth finance and just 3% R&D. Surveyed finance advisors questioned whether R&D finance was under reported, insufficiently accounting for R&D tax credits.

The median level of funding received was £75,000: over a quarter (27%) obtained under £25,000, whilst one eighth (13%) received over £1m.

The majority of those seeking external finance (62%) only applied once, with one fifth applying three or more times. Persistence pays; the vast majority of applicants (83%) obtain at least some external financing, 11% were still in transaction and only 6% received nothing.

Regression analysis revealed the significant (<.05 level) characteristics of the surveyed SMEs:

Who applies for external funding?

- Larger SMEs employers with 3 plus partner/directors and greater perceived capability to access external financing.
- Younger SMEs established for up to 5 years were more likely to apply for finance.
- Capital intensive sectors e.g. primary agricultural and manufacturing

SMEs.

- Ethnic minority owned businesses and those in less deprived areas.

Who gets external funding (where received at least some external finance applied for)?

- Larger SMEs, obtaining larger amounts of finance, with better management resources and perceived financial access skills, and 3 or more partner/directors.
- Self employed were least successful and younger SMEs established for up to 5 years.
- Accommodation and catering sectors were least successful.

Who is discouraged?

- Smaller SMEs (notably zero employee and micro employer) and younger SMEs established under 5 years.
- SMEs with perceived poorer capabilities to raise finance and with less than three directors/managers.
- Women-led and ethnic minority led businesses.

Key Recommendations

From a policy perspective the main findings suggest that government ought to complement its efforts on the external financing supply side by stimulating the demand-side for finance to ensure that quality propositions are put in front of investors. This will require improved eco-system support through capacity development amongst business advisors, a better join-up in the business support landscape, and enhanced provision and take-up of investor readiness support (SQW, 2016; Baldock et al. 2015).

Policy

1. Better education for entrepreneurs on understanding their risk profile, the variety of finance available and identifying finance that suits their risk profile

2. Provision of investment readiness support which targets those that need it most – younger, smaller high growth businesses with particular attention to ethnic-minority, women-led and rural businesses.

3. Guidance and tools for smaller/younger businesses to improve their financial management and business development

4. Improve the all round financing ecosystem integrating entrepreneurial support with a full range of suitable financing along the finance escalator.

5. Enhancing existing datasets to provide more granular analysis of key factors in the future (see LSBS data recommendations).

LSBS data

1. The relationship between financial planning and discouragement could be explored further in future LSBS surveys, exploring firms' adaptation to a lack of external financing and the extent to which this stunts potential growth or strengthens business models.

2. Current LSBS data collection makes it difficult to calculate (i) whether businesses receive all of the external funding that they required and (ii) the extent of any shortfall in required external funding.

3. Collection of R&D tax incentive (tax credits) data might provide a greater indication of the extent of R&D financing required.

4. Despite the expanded LSBS size, the data is insufficient to conduct any robust examination of the financing requirements of young potential high growth SMEs and aspects of equity and new alternative financing (e.g. P2P, reward/donation and equity crowd funding). This can only be achieved by additional bolt-on sampling.

5. It is important that the LSBS is able to ascertain what type and source of

external financing advice and assistance was received. This would help to examine demand-side and support network failures.

NEXT STEPS?

Future LSBS research should track the relationship between access to external finance and actual growth performance over time, including assessing how those that seek external finance but are discouraged actually perform.

CONTENTS

1. INTRODUCTION

Key aims of research

We analyse the characteristics, including growth-related characteristics, of 'successful applicants', 'unsuccessful applicants' and 'discouraged applicants' for finance among respondents to the Longitudinal Small Business Survey (LSBS), using the 2015 panel respondents. This can provide a baseline of analysis that can be potentially tracked over time, with future annual rounds of this panel survey. We seek to understand the growth aims, business characteristics, attitudes towards strategic advice and capabilities of these different groups to provide evidence to inform policy and theory around access to finance and SME growth.

Methodology

Quantitative Research

The richness and scale of the 2015 Longitudinal Small Business Survey (LSBS), with 15,502 SME cases, provides unique insight into the characteristics of the different types of SMEs that apply for external funding and those that have been discouraged. These are analysed in the following ways:

- Comparison between different groups of SMEs depending on external financing requirements and experiences as follows: (i) fully funded, (ii) partially funded, (iii) apply but are unfunded, (iv) do not apply but require external funding (which may contain a subset of applied for some, but not all), (v) do not apply and do not have any funding requirements.

- Comparison between the different categories of externally financed SMEs, including their financing needs, reasons for seeking finance and types of finance sought.

- Comparison between the different groups of SMEs in terms their business characteristics (e.g. sector, employment size, age, location), management characteristics (e.g. management team size, family owned, gender and ethnicity), attitudes towards support (e.g. use of external financial advisors

and use of strategic advice), recent growth (in the last 12 months), growth aims (e.g. future growth plans, exporting behaviour), and business capabilities (e.g. perceived abilities for accessing finance and developing a business plan).

The data analysis presented is unweighted.

Our quantitative analysis is presented in four broad sections:

1. Descriptive analysis of the characteristics of applicant businesses, why they sought external finance, types of finance applied for, the level of finance sought and success rates in obtaining at least some finance;

2. Descriptive analysis of the characteristics of discouraged borrowers and reasons why they were discouraged;

3. Descriptive analysis of the relationship between external finance and past and future growth orientation;

4. Regression analysis to sift out the most important characteristics of businesses (i) applying for external finance (ii) accessing at least some external finance (iii) discouraged from seeking external finance. The external finance access models are run for overall access and then for broad categories of finance (e.g. overdraft, loans, equity, grants/charitable, leasing/HP, and P2P).

Qualitative Research

A further element of the research, aimed at achieving greater understanding of the policy consequences of the quantitative findings, is extended telephone survey work undertaken with practitioners from Oxford Innovation who provide business and finance support to high growth and innovation focused firms . Six interviews were undertaken with key business finance support staff. These involved the use of a topic guide exploring the main findings from the quantitative research to find out how they impact upon business support and might require further policy development.

After a presentation of the main findings from the qualitative survey work, the report concludes with a series of key conclusions and policy recommendations.

2. QUANTITATIVE ANALYSIS

2.1 SME Access to finance

Access to finance during the previous 5 years

The survey indicates that over one-third (36%) of surveyed businesses had sought external finance during the last five years. All are currently using at least one type of external finance; one third are using just one type, 27% two types, 21% three types and 19% four or more types.

In terms of external finance that is currently being used, the main types are (n=5506): credit cards (51%), overdrafts (45%), leasing/HP (43%) and loans (38%). The tier below includes commercial mortgages (17%) and factoring (10%). Other external finance currently used includes equity (7%), private trusts and grants (4%), personal loans (3%), government schemes (2%), P2P (2%), mezzanine (1%), public equity (1%) and other assorted finance (3%).

Examining the numbers of applications for external finance made over the last five years by business characteristics there are some significant (at beyond .001 level) correlations:

- Older businesses trading 20 years and longer along with those with three or more partners/directors, perceived better management capabilities and users of external advisors are all more likely to have applied.
- Older businesses (20+ years) and those with 3 or more partner/directors are more likely to have applied six or more times.
- Family owned businesses were less likely to have applied for finance and where they did they made fewer applications than their non family business counterparts.
- Businesses in the most 15% most deprived UK areas were less likely to apply 6 or more times.
- The amount of funding secured increases by the number of applications made (22% of those applying once received £250,000 or more funding,

rising to 45% of those making 10 or more applications).

This report will focus on a detailed analysis of access to external finance during the year prior to survey.

2.1.1 Access to finance during the last year

Types of finance accessed during the year prior to survey

2,865 (19%) of the SMEs surveyed had sought external finance in the last year. Of these, 51% sought credit card finance, 43% bank loans, 42% overdrafts, 36% leasing, 9% factoring, 6.5% equity, 7% grants and 4% P2P (peer-to-peer debt finance).

62% applied only once for finance during the last year, 18% twice, 14% 3-5 times and 6% more than 5 times.

Overall (Table 2.1), 83% of applicants received at least some funding, 6% received nothing and 11% were unable to give a definitive answer because applications were still in progress.

Amongst finance seekers, the most frequently sought types of finance were bank overdrafts and loans (both 43%), followed by leasing/HP (35%) and credit cards (22%). Just 6% sought private equity finance whilst rust and private grants represented 7% and government schemes represented just 3%.

Reasons for seeking finance

The main reasons for seeking finance mentioned by the finance seekers (n=2883) were:

- 51% were seeking working capital to assist cash-flow
- 42% were seeking finance for equipment and vehicles
- 15% were buying land and premises
- 9% were seeking funding for business property refurbishment
- 7% were seeking to expand in the UK

- 3% required finance for R&D

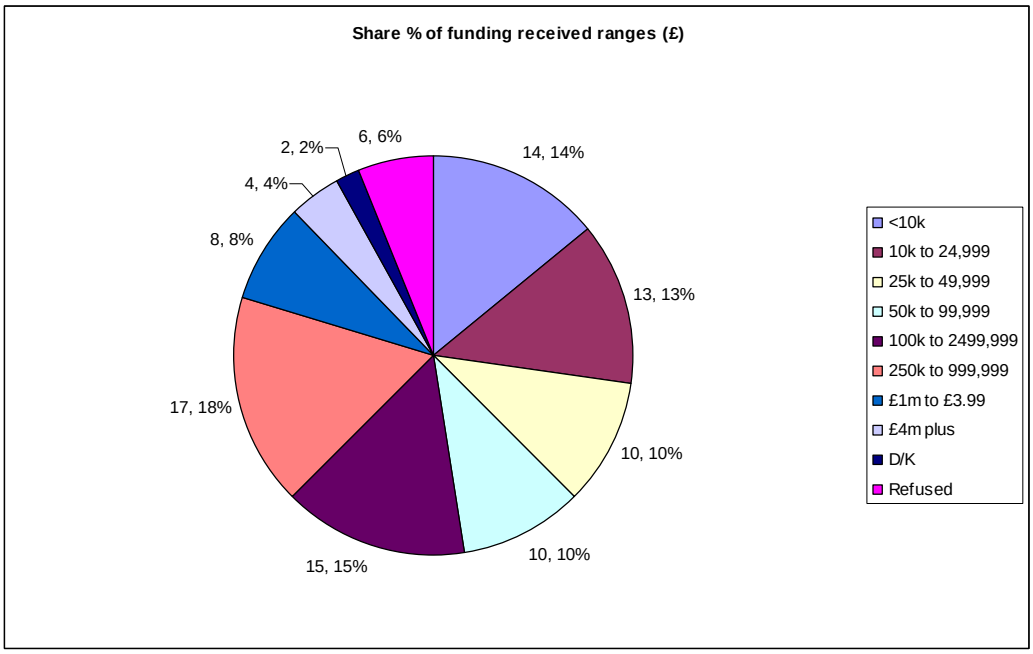
Other specific requirements which registered 2% or less included: start-up finance, training, recruitment, marketing, buy-in and buy-out, overseas expansion, recovery and debt consolidation.

Amounts of finance sought

The amounts of funding secured during the year prior to survey were recorded in grouped categories. These demonstrate that amongst the successful applicants (n=2402, see Figure 2.1):

- More than a quarter (27%) obtained under £25k
- One fifth obtained between £25k and £100k
- Almost one third (32%) received between £100k and £1m
- One in eight (13%) obtained over £1m, with 4% obtaining £4m plus
- The median level of funding received was £75k

Figure 2.1: Share of funding received by funding range categories



N=2402

Profile characteristics by amount of external finance raised

Securing larger amounts of finance during the last year is significantly related to the larger employment size of businesses. It is also significantly associated with perceived better capabilities for raising finance and strongly correlated with having 3 or more partner/directors. Older businesses, established 20 years of more were also more likely to raise larger amounts of finance. This demonstrates the importance of internal management resources that are typically found in larger older SMEs. The following profile characteristics of surveyed businesses were significantly related (at beyond .001 level) with the amount of finance obtained in the year prior to interview:

- Increased employment size is strongly related to increased amounts of finance raised. For example, this rises proportionally for finance raised of at least £250,000 within each category (rising from 1% of zero employee to 19% of 50-249 employee businesses)

- Having perceived greater management capabilities for raising finance is strongly related with raising greater amounts of finance.

- Businesses with three or more partners/directors were more likely to raise greater amounts of finance as were older businesses established over 20 years.

- Both family and women owned businesses raised smaller amounts of finance than their non-family and male owned business counterparts.

- More capital intensive sectors such as primary, manufacturing and construction were more likely to raise larger amounts of finance than services sectors such as finance, professional administrative and other personal type services (which typically have lower overheads).

Table 2.1: Types of finance accessed and success rates in the last 12 months

Type of Finance (n=2883) Row %	Obtained (a)	Progress (b)	Unsuccessful (c)	Success rate a/(a+c)	% of seekers
Bank O/D	35	2	6	85	43
Loans	31	4	8	79	43
Commercial mortgage	7	2	2	78	11
Credit cards	20	1	1	95	22
Factoring	7	1	1	87	9
Leasing/HP	33	1	1	97	35
P2P	2	1	1	67	4
Equity	4	1	1	80	6
Public equity	0.4	0	0.1	80	1
Mezzanine	1	0	0.2	83	1
Trust/private grant	5	1	1	87	7
Government scheme	3	0	0.3	90	3
Personal finance	1	0	0.1	90	1
Other	4	1	1	80	6
Total	83	11	6	93	100

Table 2.1 indicates that the success rates of applicants for personal finance, government schemes, credit cards and leasing were highest, whilst for bank overdrafts, equity and loans and P2P the success rates in obtaining any external finance were lower.

Profile by overall success rates

Table 2.1 presents the proportions of businesses applying for finance during the previous 12 months that received at least some external finance, none, or were still awaiting a decision.

Key findings include:

- Self employed businesses were significantly (<.001 level) less likely to obtain any finance, with success rates increasing with employment size. This finding is supported by the significance (.01 level) of SMEs with no partner directors being less successful in accessing external finance, whilst businesses with 3 or more partners are far more likely to be successful.

- The accommodation and catering sector was significantly (<.01 level) less likely to obtain external finance amongst the broad sectors tested.

Infocomms were also less likely to obtain finance.

- Young businesses established for less than 5 years were significantly (<.001 level) less likely to obtain external finance, with success rates increasing as businesses become more mature.

- SMEs in the North East region was significantly (.05 level) less likely to obtain external finance and business in London were also less likely to have success in obtaining external finance.

- Interestingly, businesses that used external finance finders and advisors were significantly (.05 level) less successful at accessing external finance and significantly (<.001 level) more likely to make more numbers of applications. This may be because they are young and high risk distressed businesses seeking unusual types of finance.

- Businesses with perceived strong capabilities to find external finance were significantly (<.001 level) more likely to access at least some finance.

Further examination of those that use financial advisors for seeking finance reveals that they are generally more likely to be larger businesses, but that in the micro size group a higher (but not significant proportion) are using financing advisors (30% compared with 24%). Furthermore, younger businesses established under 5 years are significantly (<.01 level) more likely to use financing advisors. Those seeking equity finance are significantly (<.01 level) more likely to use financing advisors and twice as likely to have experienced loan application failure (14% compared with 7%).

Interestingly, businesses experiencing both sales turnover growth and decline during the previous 12 months were higher proportional users of finance finders – again highlighting the patchy impact of such advisors, or the problematic distressed nature of the businesses that struggle to find funding.

Table 2.2: Access to finance Success rates by business and management characteristics

Characteristic (n=2883) Row %	Obtained	Not	Other	Success rate	N=
Employment size					
Self employed/zero employee	72***	14	15	84	446
1-9 employees	79	9	12	90	699
10-49 employees	86	4	10	96	909
50-249 employees	91	1	8	99	829
Broad sector (SIC2007)					
Primary	90	1	9	99	165
Manufacturing	87	3	9	97	350
Construction	82	9	9	90	248
Wholesale/Retail	88	3	9	97	411
Transport	83	7	10	93	137
Accommodation/Food	73**	10	17	88	184
Infocomms	81	10	8	89	144
Finance/Real estate	81	7	13	92	88
Professional	84	7	9	92	327
Administration	84	7	9	92	205
Education	78	6	16	93	109
Health	79	7	14	92	316
Arts	86	1	13	99	94
Other services	76	7	17	92	105
Establishment age of business					
0-5 years	77***	10	13	89	379
6-10 years	78	9	13	90	357
11-20 years	84	6	11	93	457
20+ years	86	4	10	96	1685
Government Office Regions					
East Midlands	87	4	9	96	220
East of England	89	3	8	97	305
London	79	9	12	90	343
North East	70*	8	11	90	89
North West	85	5	10	94	253
South East	81	8	11	90	463
South West	85	5	11	94	359
West Midlands	85	6	9	93	208
Yorkshire and Humber	84	4	12	95	206
Scotland	84	4	12	95	229
Wales	77	5	18	94	99
Northern Ireland	79	7	14	92	109
Urban/Rural/Deprived location					
Urban	83	6	11	93	2027
Rural	85	5	11	94	849
15% most deprived areas	83	7	11	92	372
Management characteristics/capabilities					

Family led	84	7	10	92	1747
Women led	80	7	12	92	547
Minority Ethnic led	81	8	11	90	150
No partners/directors	79**	5	16	94	325
1-2 partners/directors	82	7	11	92	1505
3+ partners/directors	88	3	9	97	1018
Capabilities access finance good+	90***	2	8	98	1515
Capabilities access finance average	83	4	13	95	656
Capabilities access finance poor-	67	15	18	82	542
Used external finance advice/support	78*	8	14	91	167

Significance: *<.05; **<.01; ***<.001

Access relationship between key types of finance and business and management characteristics

Examining the main types of finance sourced (overdrafts, loans, equity, leasing/HP and grants/trust/charitable) revealed that larger employment size is significantly related to application success across all forms of finance. The situation for smaller firms with smaller internal resources was further exacerbated where businesses declared that they had poor capabilities to raise finance; these performed significantly less well (<.001 level) across all forms of finance. Businesses that used external advisors exhibited mixed results, being significantly (<.05 level) more likely to receive leasing/HP, but less likely to receive overdrafts and loans. It is possible that these businesses are unsuccessful or unsuitable for loan finance, causing them to take on advisors to seek alternative types of finance; there is a marginally significant (<.1 level) relationship suggesting that younger businesses (established under 5 years) are more likely to use external advisors.

In further detail the following relationships are evident:

- By employment size, larger businesses are significantly more likely to be successful in accessing all types of finance; at beyond .001 level, except for grants (<.05 level)

- By age of establishment; older businesses are significantly (<.001 level) more likely to experience success in applying for overdrafts, leasing and loans.

- Businesses in urban locations were significantly (<.001 level) more likely to experience success in applying for lease/HP finance than their rural counterparts.

- Businesses located outside of the 15% most deprived neighbourhoods were slightly significantly (<.1 level) more likely to experience success in applying for grants/trust/charitable finance.

- Ethnic minority owned businesses were slightly significantly (<.1 level) less likely to experience success in applying for leasing/HP finance.

- Businesses with more directors were significantly (<.001 level) more likely to be successful in applying for overdrafts, leasing and loans.

- Businesses with declared poor capabilities for raising finance were significantly (<.001 level) less likely to access finance of all types.

- Businesses that used financial advice and support were significantly (<.05 level) less likely to get overdrafts or loans and significantly (<.05 level) more likely to obtain lease/HP finance.

Obtained some but not all finance

Table 2.3: Differentiating between where all or some external finance applied was received

Received: Row %	All	Some	None	In Progress	N=
Equity	57	9	17	17	187
P2P	56	1	37	12	118
Loans	68	4	18	10	1245

Only three types of finance data collected provide clear evidence of differentiation between whether successful applicants received all or only some of the finding that they required. Overall, it is evident that the vast majority of successful applicants received all of the funding that they were applying for (see Table 2.3).

- Equity finance exhibits the greatest proportion only receiving some of the finance that they applied for during the last year (9% of applicants).

- The numbers of businesses receiving partial funding are small ranging from 52 loan applicants to just a couple of P2P applicants (the small

proportion here may relate to these type of funding platforms either funding all or nothing).

2.2 Discouragement

'Discouraged borrowers' may be defined as those with a declared external financing need who for some reason do not apply for funding (Fraser, 2009). In this section we explore borrower discouragement exhibited by the 15002 surveyed SMEs for the 12 months prior to interview.

Overall 9% of SMEs exhibit some form of borrower discouragement and this includes 3% of SMEs (417) that had applied for some funding (316 obtaining at least some, 47 obtaining nothing and 54 experiencing delays or not yet having resolved their applications during the last 12 months).

Characteristics of discouraged borrowers

An exploration of the characteristics of the discouraged borrowers reveals the following significant findings:

- Micro businesses (1-9 employees) are more likely (significant at <.001 level) to exhibit discouragement.
- Young businesses aged five years or younger are more likely to exhibit discouragement (significant at <.001 level).
- SMEs with no partners or directors (self employed) are more likely to exhibit discouragement (significant at <.001 level).
- Minority ethnic led businesses are significantly (at <.001 level) more likely to exhibit discouragement.
- SMEs with declared poor capabilities to access finance are significantly (<.001 level) to exhibit discouragement.
- Those that use external finance finders and advisors are more likely to exhibit discouragement (significant at <.001 level).
- Those SMEs that have a formal business plan, but do not keep it updated

are significantly (at <.01 level) more likely to exhibit discouragement.

Our findings are very much in-line with the expectations from previous studies that smaller, younger SMEs, with smaller management resources and capabilities are more likely to be discouraged (Table 2.4).

Our finding that SMEs that use external finance advisors and finance finders are more discouraged also underlines the result that these businesses are significantly less likely to access external funding. They exhibit twice the proportion of use to those that are successful. The indication is that these businesses struggle to find funding because they are smaller and younger, initially failing or unable to obtain bank funding and seeking, but inexperienced in raising, alternative sources of finance, notably equity. This raises important questions for policy, as it confirms the findings of Baldock et al (2015) and SQW's DETI (2015) report, which both indicate that finance advice and finding services can be inconsistent, poorly informed (notably about government schemes availability and eligibility) and could be considerably improved.

Table 2.4: Discouraged Borrower characteristics, where financing need not pursued in the previous 12 months

Characteristic (n=15502) Row %	Finance need not pursued	N=
Employment size:		
Self employed/zero employee	8	4355
1-9 employees	11***	4102
10-49 employees	10	4066
50-249 employees	7	2979
Broad sector (SIC2007)		
Primary	10	577
Manufacturing	10	1456
Construction	10	1497
Wholesale/Retail	9	2240
Transport	7	560
Accommodation/Food	11	1058
Infocomms	11	872
Finance/Real estate	6	613
Professional	7	2244
Administration	8	1129
Education	8	668
Health	12	1401
Arts	11	478
Other services	11	709
Establishment age of business		

0-5 years	14***	1887
6-10 years	10	2005
11-20 years	9	2733
20+ years	8	8819
Government Office Regions		
East Midlands	9	1135
East of England	9	1694
London	11	1959
North East	8	433
North West	10	1400
South East	9	2590
South West	8	1849
West Midlands	8	1232
Yorkshire and Humber	8	1111
Scotland	10	1095
Wales	10	504
Northern Ireland	12	500
Urban/Rural/Deprived location		
Urban	9	11188
Rural	9	4273
15% most deprived areas	10	1723
Management characteristics/capabilities		
Family led	9	10360
Women led	10	3188
Minority Ethnic led	16***	768
No partners/directors	11***	1546
1-2 partners/directors	9	9616
3+ partners/directors	9	4062
Capabilities access finance good+	7	5544
Capabilities access finance average	12	2794
Capabilities access finance poor-	17***	2865
Used external finance advice/support	20***	349
Formal business plan to date	10	5986
Business plan not up to date	14**	1266
No formal business plan	8	7868
Total	9	15002

Significance: *<.05; **<.01; ***<.001

Reasons for discouragement

An examination of the main reasons for discouragement indicates that overall, amongst the 9% (n=1435) of surveyed SMEs exhibiting discouragement, this more frequently related to avoiding additional risk (20%), fear of rejection (17%),

perceived high cost of finance (13%) and length of time and amount of hassle to obtain finance (11%). Furthermore, more than one in five (23%) suggested either other reasons or 'don't know' (Table 2.5).

When the sub-group of 3% (n=417) that had previously sought finance during the last 12 months and still had finance external requirements which they had not decided to apply for are analysed, thoughts of rejection increase to 29% and lengthy timetable and hassle in obtaining finance increase to 14%. Amongst those that had previously received no external finance from applications during the last 12 months, nearly half (45%) were most concerned about application rejection.

Table 2.5: Main reasons for discouragement by all SMEs and those previously seeking finance in the last year

Main reason for discouragement	All SMEs	Col% (n=1435)	Col% (n=15002)	Previously sort (n=417) Col%	Some (n=316)	None (47)	Other (54)
You thought you would be rejected	250	17.4	1.6	29	28	45	20
You thought it would be too expensive	189	13.2	1.2	9	10	4	9
You don't want to take on additional risk	293	20.4	1.9	15	17	9	9
Now is not the right time because of economic conditions	97	6.8	0.6	6	6	0	7
You didn't know where to find the appropriate finance you needed	55	3.8	0.4	5	4	9	7
Poor credit history	64	4.5	0.4	4	3	15	2
The decision would have taken too long/too much hassle	151	10.5	1	14	15	6	17
Other	255	17.8	1.6	14	14	11	19
Don't know	71	4.9	0.5	3	3	0	9
Refused	10	0.7	0.1	1	1	2	0
Total	1435	100	9.3	100	100	100	100

2.3 Relationship between External Funding and Growth

Table 2.6: Predicted and Actual Sales Turnover Change by Access to External Finance

Outcome/finance	Increase Row%	Same (Row%	Decrease Row%	N=
Future sales growth (12 months)				
Obtained some	56*	36	8	2357
None	45	43	12	160
Other (in process)	51	38	11	301
Applied once	55	36	9	1738
Applied twice	57	36	7	492
Applied 3-5 times	56	35	9	388
Applied 6+ times	43***	41	16	200
Not Applied	43***	46	11	11669
Sales growth last 12 months				
Obtained some	47***	34	17	2347
None	38	39	22	157
Other (in process)	38	39	19	308
Applied once	46	35	17	1731
Applied twice	47	33	17	495
Applied 3-5 times	44	34	20	386
Applied 6+ times	44	36	20	200
Not Applied	36***	43	18	11980

Significance: *<.05; **<.01; ***<.001

Examining sales turnover performance, Table 2.6 presents actual sales turnover growth during the past 12 months prior to survey and predicted sales turnover growth for the next 12 months.

Examining future sales turnover performance predictions for the next 12 months, successful application for external finance, along with applying up to five times for external finance appear to be correlated with improved growth predictions, when compared to those firms applying 6 or more times and non applicants in this period.

- Future sales growth over the next 12 months is significantly (at beyond .05 level) related to obtaining at least some external finance during the 12 months prior to survey.

- Unsuccessful applicant firms during the past 12 months exhibit a considerably lower proportion expecting sales growth (in-line with those

firms not applying for finance).

- Those firms applying 6 or more times for finance during the past 12 months, along with firms not seeking external finance in this period are significantly (at beyond .001 level) less likely to indicate future sales growth.

Turning to actual sales turnover performance during the previous 12 months, our overall findings demonstrate that obtaining at least some external finance during the last 12 months is significantly associated with sales turnover growth when compared with unsuccessful applicants and those firms not seeking external finance in this period.

When we examine higher growth outcomes (grew significantly 10-20% or substantially 20%+) there is no difference between receiving some or no external finance, or in relation to the number of applications for external finance made during the last year. The only clear finding is that those seeking external finance are significantly more likely to have experienced higher sales growth in this period (30%) when compared to non applicants (24%).

Furthermore, amongst applicant firms the number of applications for finance is not strongly correlated with past sales growth. This might suggest that application success is more strongly related to the strength of future growth predictions than firms' past growth record, but more likely indicates that future growth predictions have been revised down as a result of not receiving external finance.

- Those firms obtaining at least some external finance during the past 12 months were significantly (at beyond .001 level) more likely to indicate sales turnover growth over the past 12 months.

- Those firms not applying for external finance in the period were significantly (at beyond .001 level) less likely to exhibit sales turnover growth in the past 12 months.

Examining employment change (Table 2.7) recorded during the 12 months prior to survey and predicted for the 12 months after survey, we find similar patterns to sales performance in relation to access to external finance during the previous 12

months.

- Employment growth during the past 12 months is significantly associated (at beyond .001 level) obtaining at least some external finance.

- Those not applying for finance are significantly (at beyond .001 level) less likely to forecast employment growth over the next 12 months.

- Those not obtaining external finance that they have applied for are also significantly (at beyond .05 level) less likely to have experienced employment growth in the 12 months prior to survey.

- Those not applying for finance in the past 12 months are significantly (at beyond .001 level) less likely to have experienced employment growth in this period.

Table 2.7: Predicted and Actual Sales Employment Change by Access to External Finance

Outcome/finance	Increase Row%	Same Row%	Decrease Row%	N=
Employment growth last 12 months				
Obtained some	36***	50	14	2374
None	20	66	14	163
Other (in process)	26	56	17	310
Applied once	32	54	14	1751
Applied twice	37	47	16	502
Applied 3-5 times	36	47	17	392
Applied 6+ times	36	48	16	202
Not Applied	20***	68	11	12112
Future Employment growth next 12 months				
Obtained some	40	53	7	2402
None	27*	63	9	168
Other (in process)	40	53	2	313
Applied once	37	56	6	1779
Applied twice	43	47	10	504
Applied 3-5 times	40	51	9	397
Applied 6+ times	38	52	9	203
Not Applied	25***	68	6	12170

Significance: *<.05; **<.01; ***<.001

2.4 Descriptive Analysis Summary Conclusions

The picture emerging from the LSBS data is largely supportive of other studies of SME access to external finance, with larger businesses (in terms of employment size) being more likely to access finance and secure larger amounts. Conversely, the success rates amongst younger smaller businesses, particularly self employed/zero employee and those established under 5 years were poorest.

A key emerging theme is that larger businesses with stronger management resource bases are significantly more likely to access external finance. This was the case for those with perceived better capabilities for raising finance and having 3 or more partner/directors.

An important finding is that businesses that used external finance finders and advisors were significantly less successful at accessing external finance and more likely to make more numbers of applications. There is an indication that these are younger, smaller businesses that lack management resources and also some older established distressed businesses that struggle to get conventional bank finance, or alternative sources of finance.

Borrower discouragement is exhibited by just under one in ten SMEs and is more prevalent amongst younger, smaller SMEs. One third of this group are businesses that have applied for external finance during the previous year but have not obtained all of the finance that they required. Intriguingly this group contains a significantly high proportion of businesses that used external advisors to seek finance. These appear to be a mix of distressed under-performing established businesses and small, young businesses that lack internal resources and knowledge of accessing finance and are seeking alternative finance solutions (e.g. forms of equity).

Business growth, both in terms of employment and sales turnover during the year prior to interview and predicted for the next year, is highly significantly correlated with access to (at least some) external finance. A possible area for future research will be to track predicted growth with actual performance. An interesting point is that businesses with multiple applications of 6 or more are as significantly unlikely to indicate future growth as non applicants, suggesting that they are

impacted by lack of finance (potentially revising down their growth predictions).

2.5 Regression Analysis

In this sub-section we explore a series of regression models to establish which are the main factors contributing to access to finance when potentially key influences such as business size, establishment age and management resources and capabilities are controlled for. The approach taken was to run a series of binary logit models to test the dependent variable of whether the applicant business received external finance or not. The models begin with an aggregate overall model for all applicants and then separately investigate five different types of finance (loans, overdrafts, leasing/HP, equity and charity/grants) to see if there are specific nuances within these. Initially, as a point of context we explore the dependent variable of whether sought external finance during the past year, we then also explore the dependent variable where borrower discouragement was mentioned.

The independent variables included in the model are those which appeared most influential from the initial descriptive analysis undertaken and include: number of business partner/directors; business capabilities to raise finance; broad regions (London, South, Midlands, North, Scotland, Wales); urban location; sector, number of employees; establishment age; family owned business; women-led; Minority Ethnic Group (MEG) led.

Whether sought External Finance

Here we are examine the broad question of whether firms that seek external finance are different from those that do not, by using the dependent variable applied for external finance during the 12 months prior to survey. This produced a robust regression model with 69% accuracy, significant difference from the baseline model at <.001 level, R-square 7.20% explanation of outcomes and Hosmer & Lemeshow (H&L) goodness of fit at .354 (<.05). This revealed:

- Unsurprisingly, SMEs that did not use external financing services are less likely (0.397 times) to apply for finance than those that did use such services (<0.001)
- Increasing the capabilities of access to finance is associated with

increased chances of applying for external finance: firms with poor capabilities to access finance are less likely (0.741 times) to apply for finance than those with good capabilities (<0.001), whilst those with average capabilities are less likely (0.864 times) to apply for finance than the ones with good capabilities to access finance (<0.1).

- Increasing the firm size by numbers of employees number is associated with increased chances of odds of applying for external finance: firms with no employees are less likely (0.452 times) to apply for finance (<0.001), firms with 1 to 9 employees are less likely (0.759 times) to apply (<0.01) and firms with 10 to 49 employees are less likely (0.813 times) to apply (<0.05), than those with 50-249 employees.
- A confirmatory finding of the importance of size is that firms with up to 2 partners are less likely (0.788 times) to apply for finance than the ones with 3 or more partners (<0.01).
- Firms in primary activities are more likely (2.527 times) to apply for external finance (<0.001), along with manufacturing (1.536 times; <.05) and transport (1.784 times; <0.05), when compared to other services.
- Firms established up to 5 years are more likely (1.278 times) to apply for finance than those established 20+ years (<0.05).
- Firms in the 15% most deprived areas are less likely (1.257 times) to apply for finance than those in less deprived areas (<0.05)
- Ethnic minority led firms are more likely (1.699 times) to apply for external finance than their counterparts (<0.001)

Access to External Finance

Here we explore whether the applicants for external finance during the past 12 months received at least some finance. The aggregate model for whether received at least some funding provided robust findings, with 85.6% accuracy, significant difference from the baseline model at <.001 level, R-square 13.8% explanation of outcomes and Hosmer & Lemeshow 'HL' model goodness of fit at .72 (<.05). This revealed:

- Increasing the capabilities of firms to access finance is significantly associated with increased chances of accessing finance: firms with poor capabilities to access finance are less likely (0.323 times) to obtained

finance than the ones with good capabilities to access finance. (p<0.001) and firms with average capabilities to access finance are less likely (0.496 times) to obtained finance than the ones with good capabilities to access finance (<0.01). This indicates that increasing the capabilities of access to finance is associated with increased odds of obtaining finance.

- Increasing the number of employees is associated with increased chances of obtaining finance; notably, firms with zero employees are less likely (0.297 times) to obtained finance than the ones with 50 to 249 employees (<0.001)

- Firms in accommodation and food catering are less likely (0.337 times) to have obtained finance than the ones in other sectors (<0.05).

Examination of the specific types of finance indicated robust models for all except equity where the numbers were small and the HL is .025 and the baseline model only has .1 difference and charitable/trust/grants where similarly to equity some observations fall below 50 cases. All of the models have at least 75% classification accuracy. The main findings are as follows:

- Increasing the capabilities of access to finance is significantly (<.01) associated with increased odds of obtaining loan finance; notably firms with poor capabilities to access finance are less likely (0.124 times) to obtained finance than the ones with good capabilities to access finance (<0.001).
- Firms with poor and average capabilities to access external finance are significantly less likely to access equity finance than the ones with good capabilities (<.01).
- Firms with poor capabilities to access finance are less likely (0.107 times) to obtained bank overdraft than the ones with good capabilities to access finance (p<0.001). Similarly they are less likely to have obtained Leasing/HP finance (0.24 times: <.01), Charity/Trust/Grant than (0.12 times: <.01)
- Firms located in the Midlands (0.144 times) and North (0.16 times) of England are significantly less likely to have obtained a bank overdraft than firms located in NI (<0.05).
- Women-led firms are significantly less likely (0.464 times) to have

obtained bank overdraft finance than men-led (<0.05)

- Firms located in urban areas are more likely (1.899 times) to obtained loan finance than the ones in rural areas (<0.01).

Borrower Discouragement

Turning to borrower discouragement, we explore whether the surveyed SMEs had external financing requirements but did not apply for this finance in the 12 months prior to survey. This regression model was robust, containing 67% accuracy, significant difference from the baseline model at <.001 level, R-square 19% explanation of outcomes and Hosmer & Lemershow 'HL' model goodness of fit at 0.474 (<.05). This revealed:

- Firms with poor capabilities to access finance are significantly more likely (2.642 times) to be discouraged than the ones with good capabilities to access finance (<.001).
- Younger firms established up to five years are significantly more less likely (0.517 times) to be discouraged than those established for over 20 years (<.05).
- Women-led firms are significantly more likely (1.698 times) to be discouraged than their male-led counterparts (<.05).
- Minority ethnic-led firms are significantly more likely (2.217 times) to be discouraged than their counterparts (<.05).
- Increasing firm size by number of employees is significantly associated with increased odds of not being discouraged: Firms with on employees are more likely (0.434 times) to be discouraged (<0.05), as are firms with 10 to 49 employees (0.553 times; <.05) than those with 50-249 employees.

Summary Regression Findings

Seeking financing in the last 12 months:

- Firms seeking external financing are more likely to be larger in size, but younger in age (established up to 5 years), to have at least three directors/managers and better capabilities for accessing finance, including using external finance finders. They also include the primary,

manufacturing and transport sectors (all traditionally capital intensive sectors), ethnic minority owned businesses and those in less deprived areas.

Accessing External Finance in the last 12 months:

- Increasing the capabilities of firms to access finance is significantly associated with increased chances of accessing finance alongside increasing firm size by the number of employees. This is also the case for obtaining bank loan and equity finance. The accommodation and catering sector is significantly less likely to access external finance.

- Firms with poor capabilities to raise external finance are significantly less likely to obtain bank overdrafts, HP/leasing and grants/charitable funding.

- Firms located in the Midlands and North of England and women led firms are significantly less likely to obtain bank overdraft finance.

- Firms located in rural areas are significantly less likely to obtain bank loan finance.

Discouraged Borrowers in the last 12 months:

- Increasing the size of the firm by employment numbers significantly decreases the likelihood of discouragement.

- Firms with poor capabilities to raise finance are significantly more likely to be discouraged and this is linked to younger firms established up to 5 years and those with less than three directors/managers.

- Women and ethnic minority led businesses are significantly more likely to be discouraged than their counterparts.

3. QUALITATIVE ANALYSIS

This section presents the findings from the qualitative interviews with practitioners from Oxford Innovation (part of SQW Group). It complements the quantitative analysis set out in section 2. The overall purpose of the interviews was to: (i) explore whether the key findings from the quantitative analysis of the

LSBS data 2015 aligned with Oxford Innovation's 'on-the-ground' experience and/or wider knowledge; (ii) probe for possible explanations for the quantitative findings; and (iii) consider any wider policy implications. The feedback helped to test the main quantitative findings and connect the data with practice.

Oxford Innovation manages a UK network of business and innovation centres[1], and provides business advice and support through Oxford Innovation Services[2] (OIS). It also manages three investment networks: Oxford Investment Opportunity Network (OION)[3]; Thames Valley Investment Network (TVIN)[4]; and Oxford Early Investments (OEI)[5]. These networks offer investment opportunities in early stage ventures by connecting companies with angel investors. The investor membership includes private individuals, Venture Capital Funds, Venture Capital Trusts and Corporate Investors. Over £50 million has been directly raised through the three investment networks. Oxford Innovation as whole has supported over 500 high-growth companies to commercialise their innovations[6].

The approach to engaging with Oxford Innovation involved conducting six telephone interviews lasting 40-60 minutes each. A semi-structured topic guide with the main results from the quantitative analysis of the LSBS data was used (sent to interviewees in advance of the discussions). This covered the following areas:

- Access to finance during the previous 12 months
- Reasons for seeking finance during the previous 12 months
- Amount of finance sought during the previous 12 months
- Access to finance during the previous 5 years
- SMEs receiving some external finance, none or awaiting decision
- Relationship between key types of finance and business and management characteristics
- Discouragement issues

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[1] http://www.oxin-centres.co.uk/
[2] http://oxfordinnovationservices.co.uk/
[3] http://www.oion.co.uk/
[4] http://www.tvin.co.uk/
[5] http://www.oxei.co.uk/
[6] The types of firms supported by Oxford Innovation are high-growth and innovation focused technology firms from a range of sectors.

- Relationship between external funding and growth.

The six Oxford Innovation practitioners interviewed were client facing and have been delivering specialist finance and business support to high growth firms for a number of years including through: Oxford Innovation's investment networks; and through the Growth Accelerator programme and its successor the Business Growth Service (now closed). The roles of interviewees included: Business Growth Manager; Access to Finance Growth Manager; Investment Director; Incubation Director; and Business Performance and Finance. The responsibilities of interviewees covered a range of investment readiness and other support (e.g. financial, growth strategy development, business planning, networking).

Types of finance accessed and reasons for seeking finance during the previous 12 months

Interviewees agreed with the survey analysis on the proportion of SMEs accessing external finance in the year prior to the survey (19% of SMEs surveyed) and that from the proportion of SMEs applying for external finance, the vast majority received at least some funding (83% of applicants). The prevalence of different sources (in order of most survey responses): bank loans, overdrafts, leasing/HP, credit cards, factoring, equity, grants and P2P debt finance (see section 2.1 for results) was generally thought to be in line with the experiences of interviewees.

There was also general consensus on the reasons for seeking finance during the previous 12 months. Working capital to assist cash-flow, equipment and vehicles, buying land and premises (land being less relevant for Oxford Innovation supported firms), business property refurbishment, expansion in the UK, and R&D were all considered the main factors for seeking finance. It was highlighted that 'cash-flow' difficulties constituted the main driver for accessing external finance as many were starting out, and working on the idea/products. With regards to established firms, the time between receiving payment for products/services and money going-out to pay e.g. suppliers (difference between income coming in and expenditure) was argued to not always be in sync, in turn affecting cash-flow, and resulting in a key reason for seeking finance.

Across all SMEs, the proportion seeking finance for R&D was low but according

to interviewees this proportion is much higher amongst high growth and innovative SMEs. It was suggested that many high growth SMEs do not take advantage of R&D tax credits and even if they do they are unlikely to perceive this tax credit as a form of external finance[7].

Although the survey analysis seems generally "right" it was pointed out that the financing picture is changing: SMEs tend to go to banks as first lender (as they may have existing relationships) but are increasingly finding that this is not appropriate for various reasons (e.g. strict terms and conditions, long time taken to process and obtain funds, lack of collateral and trade history, aversion to supporting innovative/risky projects). There were now far more "flexible" alternatives to financing cash-flow and other financing needs especially through crowdfunding/P2P. For example, the volume of lending in the South West of England is reported to have increased through P2P with decisions being made more quickly (e.g. within 7 days) compared to the banks. So, although the survey analysis suggested that bank loans, overdrafts, leasing/HP, credit cards were more accessed products with P2P being at the other end of the spectrum, there is growing activity from SMEs and lenders/investors in alternative financing such as P2P.

It was stressed by interviewees that a lot more work needs to be done to educate entrepreneurs/SMEs on what are the appropriate sources of finance for their business especially on particular products like mezzanine finance to improve demand. A potential area that was identified by interviewees related to the personal circumstances of the entrepreneur which were thought to play an important role in accessing external finance (e.g. can they provide personal guarantee/collateral?).

Amount of finance sought during the previous 12 months

All interviewees confirmed that the results for the amounts of funding secured by successful applicants during the year prior to the survey appeared to be as expected (see results in section 2.1). From the perspective of understanding growth, it was suggested that the "interesting" category is the one relating to

[7] A point here is that although the LSBS is not capable of capturing R&D tax credit data it is possible to link respondents to HMRC data.

'13% obtained over £1m, with 4% obtaining £4m plus'. The firms in this group potentially represent those which were growing (rather than those which are just surviving/lifestyle firms) and can properly evidence their future plans, in turn securing confidence of lenders/investors to achieve their targets. It was suggested that if "normal" SMEs are excluded from the analysis (i.e. not growing firms) then a more accurate picture may emerge of the amounts secured for growth-orientated businesses[8].

Practitioners involved in Oxford Innovation's investment networks indicated that typically £100k-£500k was sought by firms (with some outliers) supported by the networks, and that some entrepreneurs wanted "visibility" and go through e.g. series A, B and C funding rounds knowing they will not realistically secure equity from VCs but go through this process just to raise their profile and build experience.

SMEs receiving some external finance, none or awaiting decision

Perhaps a surprising finding from the LSBS data analysis was that firms that used external finance finders and advisors were significantly less successful at accessing external finance and more likely to make more applications. These were younger, smaller businesses that lacked management resources and struggled to get conventional bank finance, or alternative sources of finance.

Interviewees explained the above findings that firms seeking external support were already in a "distressed" state when they come to engaging with finance finders and advisors. These firms were likely to have already struggled to raise finance (or may have borrower discouragement) partly because their approach to raising funds is not necessarily "tactical" or "strategic" but "reactionary" (requiring immediate "cash-injection").

An example is where entrepreneurs leave it too late to access external finance, something which is reflected in the "turnaround" market for when firms are about to go "bust". This has given rise, in some cases, to the practice of "Pre Pack

[8] A problem here is that the higher order funding requirements of £1m plus represent just 412 SMEs (<3% of surveyed SMEs) which is insufficient to run robust regression analysis.

Administration" (when an insolvent business is sold to a "phoenix" company i.e. a business that has been set up by the existing directors before going into administration)[9].

It is important to make clear the differentiation between "distressed" early stage companies that engage advisors and those that do so as part of a calculated plan for growth. In the former case, success is highly unlikely and there may be other motivations driving the advisory engagement (administration fees, pre-pack deals etc.)

Taking into account the "troubled" state firms are already in, the advisors are not able to fundamentally change the business plans of the firms and will often have to look at several different finance sources before getting any traction (thus requiring greater numbers of applications). Those firms which go to external support are also often younger and smaller business which may not have the management resource (e.g. a Financial Director) to focus on searching and accessing external funds. They may have relationships with banks who in turn have their own designated advisors. These advisors may not always be flexible and invest the time needed to fully understand the business.

The feedback from interviewees also highlighted the "trust and links" between finance finders and advisors, and the influential role this can play in successfully obtaining finance. There is a difference between long-term relationship advisors and those that provide short-term services. The former is considered "better" as they can work with the client firm over a longer period of time, understand their needs, and provide a wider network which firms can tap into. A related issue is the incentive/remuneration method for advisors which may also influence the outcome for firms (advisors tend to "work at risk" and have different approaches to secure their income: "retainer", success fee, charging upfront fees[10]). These issues need to be further explored to see how they affect firms' access to external funds.

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[9] A pre-pack is an "arrangement under which the sale of all or part of a company's business or assets is negotiated with a purchaser prior to the appointment of the administrator, and the sale contract executed on the appointment of the administrator or very shortly afterwards". See: House of Commons Library Briefing Paper, Number CBP5035, Pre Pack Administration. 20 January 2016.

[10] Reduces number of less quality businesses.

Interviewees were not surprised with the findings from the LSBS data that larger businesses (in terms of employment size) were more likely to access finance and secure larger amounts. Conversely, the success rates amongst younger smaller businesses, particularly self-employed/zero employee and those established under five years were poorest. Interviewees attributed this to risk profiling by debt or equity providers and the work required to administer a small loan or undertake due diligence. The larger banks for instance would far rather work with a large firm because the fees are relatively higher and they are likely to be able to repay the loan.

The finding that younger firms established under five years were more likely to use finance advisors might partly be due to them being equity focused (therefore requiring specific external expertise). For example, a young spin-out firm, which may have received public grants (e.g. Smart award from Innovate UK) - typically requiring matching funding - and then accessed other support (e.g. Knowledge Transfer Network) may then be ready for/seeking equity investment.

A key emerging theme from the LSBS data was that larger businesses with stronger management resource bases are significantly more likely to access external finance. This was the case for those with perceived better capabilities for raising finance and having three or more partner/directors. Again this can partly be explained by risk. If something should happen to one director, then the others were more likely to keep the business going and be able to pay back the finance. A larger business with greater management resource can also spend more time preparing quality presentations/pitches to finance providers.

The data analysis also found that businesses in London were less likely to have success in obtaining external finance. This might partly be explained by the trend for London businesses owners assigning unrealistic high valuations on their business which investors were not willing to consider. It was suggested that many owners of technology/innovation firms in London were influenced by high valuations seen in other international markets (e.g. USA) when valuing their own companies. However, investors in these UK firms were “put-off” by these high valuations.

Relationship between key types of finance and business and management characteristics

The LSBS analysis indicated that larger businesses (by employment size)[11] were more likely to be successful in accessing all types of finance and that older businesses (by age of establishment)[12] were more likely to experience success in applying for overdrafts, leasing and loans. The feedback suggested that larger and older businesses have built-up a track record and relatively lower risk-level for banks and other finance providers of these products. The fact that businesses with more partners/directors[13] were more likely to be successful in applying for overdrafts, leasing and loans, again points to the risk being spread between a larger number of directors who have collateral (compared to just two directors with no collateral).

Discouragement issues

The feedback confirmed that younger and micro firms, firms with no partners or directors, minority ethnic led businesses, and SMEs with declared poor capabilities to access finance exhibited more borrower discouragement. Many within this group were considered to be ill prepared for raising finance and so presented themselves badly to finance providers. The finding that a high proportion of businesses that used external advisors to seek finance were in the discouraged borrower group is explained by the reasons already given above (under sub-section 'SMEs receiving some external finance, none or awaiting decision'). To re-iterate, firms are considered already to be in a "distressed" state when they come to advisors.

Interviewees agree that these businesses struggle to find funding because they are smaller and younger, initially failing or unable to obtain bank funding. They are also inexperienced in raising, alternative sources of finance, notably equity. It was also mentioned that business plans were important for accessing external funds but firms did not always keep these updated because it required time and

[11] Graduated, so at each category step it is greater (self-employed/zero employee; 1-9 emp; 10-49 emp; 50-249 emp).
[12] Graduated, so at each category step it is greater (0-5 yrs; 6-10 yrs; 11-20 yrs; 20+ yrs).
[13] Graduated, so at each category step it is greater (no partners/directors; 1-2 partners/directors; 3+ partners/directors).

effort and many of the smaller firms were too busy “fighting fires” in their day-to-day operations to devote the resource required. It was also noted that business plans will change over time especially for start-ups (e.g. due to ‘pivoting’ of their business model). This should be expected and can be a positive development. A further observation made was that SMEs and the lender can pull out of a deal at the “last minute” thus being discouraged next time round.

The LSBS analysis found the reasons for discouragement to be as follows (in order of most survey responses): avoiding additional risk; fear of rejection; perceived high cost of finance; and length of time and amount of hassle to obtain finance. All interviewees agreed with these reasons. However, there was surprise that the length of time and amount of hassle to obtain finance was not higher up the list. It was also noted that fear of rejection was a “composite” of the other reasons. Another reason given for being discouraged related to the inability to access co-finance in order to secure the full finance amount required.

It was also pointed out by interviewees that the attitude of the retail banks to early stage businesses was important to take into account. In most cases they have a corporate policy of not lending without well covered collateral. This is more acute in some sectors (e.g. hospitality) with banks not lending regardless of the maturity of the business.

Relationship between external funding and growth

When examining business growth, both in terms of employment and sales turnover during the year prior to the survey and predicted for the next year, it was highly correlated with access to external finance. Interviewees considered this to be normal practice as those firms which have experienced actual growth or expected to grow (and can demonstrate this with evidence e.g. future contracts, confirmed sales pipeline) were more likely to access external finance.

The LSBS analysis found that that amongst applicant firms the number of applications for finance was not strongly correlated with past sales growth. Interviewees indicated that this might suggest that application success was more related to the strength of future growth predictions than past growth record, but more likely indicates that future growth predictions have been revised down as a result of not receiving external finance. In addition, it was stressed that the

companies will not be able to grow without the "correct" funds. Therefore, ensuring the most appropriate finance at the right stage of development was considered important to achieving a sustainable business.

Policy implications

Potential policy implications relating to accessing external finance were explored with the interviewees. The suggestions tended to converge around further improvements in education/knowledge and awareness amongst SMEs and their advisors (public and private) for finance products and providers, including:

- Better education for entrepreneurs on understanding their risk profile, the variety of finance available and identifying finance that suits their risk profile
- Provision of investment readiness support which targets those that need it most – younger, smaller high growth businesses with particular attention to ethnic-minority and women led businesses
- Guidance and tools to smaller/younger businesses to improve their financial management.

4. CONCLUSIONS AND RECOMMENDATIONS

This final section presents a synthesis of the key findings for each element of the research into access to external finance by UK SMEs surveyed in the LSBS 2015.

The research addresses key findings from the LSBS and provides recommendation for future data collection and further research as well as providing important recommendation for policymakers. From a policy perspective the main findings suggest that government ought to complement its efforts on the external financing supply side by stimulating the demand-side for finance to ensure that quality propositions are put in front of investors. This will require improved eco-system support through capacity development amongst business advisors, a better join-up in the business support landscape, and enhanced provision and take-up of investor readiness support (SQW, 2016; Baldock et al.

2015).

4.1 Key findings

4.1.1 Association between external financing and growth

There is widespread consensus between the descriptive analytical evidence from the LSBS 2015 and the qualitative business finance support provider interviews that obtaining external finance is highly significantly associated with SME growth. This finding supports many studies which indicate that SME growth is associated with access to external finance and particularly in relation to innovative potential high growth SMEs (e.g. Lerner, 2010; North et al. 2013).

4.1.2 UK SME demand for external finance

Over one third (36%) of surveyed SMEs had sought external finance during the past 5 years and all were using external finance of some sort.

Almost one fifth (19%) of surveyed SMEs had sought external finance in the last year: mostly relating to bank finance in the form of bank loans (43%) and overdrafts (42%) and credit card finance (51%), but also including leasing (36%), factoring (9%), grants (7%), equity (6.5%), P2P (4%).

A high proportion of external finance was sought for working capital cash-flow (51%) and equipment (42%), whereas only small proportions were designated specifically as growth (7%) and R&D (3%) finance.

The median level of funding received was £75,000: over a quarter (27%) obtained under £25,000, almost one third (32%) received between £100,000 and £1m and one eighth (13%) received over £1m.

The majority (62%) only applied once, with one fifth applying three or more times. There is an indication that persistence pays and that the vast majority of applicants do obtain at least some external financing: 83% received at least some funding, 11% were still in transaction and only 6% received nothing.

The amounts and types of finance sought were in-line with previous SBS findings (SBS, 2014), but with an increasing trend towards alternative P2P and equity finance. However, as the qualitative research suggested from a potential high

growth SME perspective the amount of external funding and level of R&D investment required was low. This reflected both the more generic SME representative nature of the LSBS and also the lack of data collection on R&D tax incentives. It was also felt that the survey is not reflecting the extent of alternative financing (e.g. P2P) being used.

4.1.3 Key factors relating to access to external finance

Who applies for external funding?

Larger SMEs (by employment size) are more likely to apply for external finance. Firms that have greater perceived capability to access external financing are also more likely to make applications for external finance. Additionally, SMEs with three or more partners/directors are more likely to apply for external finance. However, younger SMEs established for 5 years or less are also more likely to apply for finance. These conclusions reflect segments of SMEs that have the greatest capacity and/or the greatest need.

Capital intensive sectors such as primary (agriculture and land based activities) and manufacturing, ethnic minority owned businesses and those in less deprived areas are all more likely to have applied during the past 12 months (appendix table 2).

Who gets external funding?

Larger businesses (increasingly progressively from through each broad category; 1-9 employees, 10-49 employees and 50-249 employees) are more likely to access external finance and secure larger amounts. Conversely, the success rates amongst younger, smaller businesses, particularly self-employed/zero employee and those established under 5 years are poorest.

Larger businesses with stronger management resource bases are significantly more likely to access external finance. This was the case for those with perceived better capabilities for raising finance and having 3 or more partner/directors (including the greater likelihood of these companies having a dedicated finance director).

- SMEs in accommodation and food catering are less likely to have obtained finance than the ones in other sectors. This finding is supported by various studies which have indicated that this broad sector is considered high risk by the banks (e.g. North et al. 2010).

In terms of accessing specific types of finance:

- Increased perceived capabilities of accessing external finance is significantly associated with increased chances of obtaining loan finance, overdrafts, equity, leasing and grant type funds.
- Firms located in the Midlands and North of England were significantly less likely to have obtained a bank overdraft, as were women-led firms (when compared to their male-led counterparts).
- Firms located in urban areas were significantly more likely to have obtained loan finance than their rural counterparts.

These findings underline those of other studies which clearly indicate that younger, less well resourced and experienced SMEs which lack financial track records, assets and forward order books (which would enhance opportunities for obtaining mainstream bank debt finance), longer term trust ties and bonding with financiers (Uzzi, 1997, 1999) and experience in approaching alternative financing (see e.g. Baldock et al. 2015) are less likely to successfully apply for external finance and that women entrepreneurs and those in more rural and remote parts of the UK may struggle to obtain traditional forms of finance.

LSBS descriptive analysis revealed that SMEs that used external finance finders and advisors were significantly less successful accessing external finance and more likely to make more applications. However, this finding was not supported by the regression analysis or the qualitative interviews around supporting innovative potential high growth SMEs to access external finance. This appears consistent with the view that many younger, smaller SMEs will only resort to external advisers once they are in distress and as a last resort.

The strength of the management team is vital in identifying and securing appropriate types of SME finance. Younger, less experienced SME management teams are likely to require support to identify appropriate finance from the range of available options and also to become investment ready for their chosen source

of finance. Furthermore, it was felt that many of those using external advisors were likely to be younger, inexperienced, lack management resources and capabilities, be poorly planned and reactive. These 'distressed' businesses would not be attractive to finance providers and at this late stage there are limited viable finance options.

4.1.4 Borrower Discouragement

Just under one in ten (9%) of SMEs exhibit some form of borrower discouragement during the 12 months prior to survey, and this includes one third (representing 3% of all surveyed SMEs) that had applied for some funding during this period.

The main reasons for discouragement were avoiding additional risk (20%), fear of rejection (17%), perceived high cost of finance (13%) and length of time and amount of hassle to obtain finance (11%). Time and bureaucratic hassle were factors that increased for those that had applied but been unsuccessful and then become discouraged.

There is also evidence from the LSBS 2015 that discouraged SMEs are less growth oriented and that their growth aims may well be revised down as a result of their discouragement – notably from experiencing initial difficulties in trying to access external financing. Those businesses applying six or more times for external finance in the last year reported growth aims that were similar to those not seeking finance in this period (significantly lower than for at least partially successful applicants). The suggestion here is that some growth oriented SMEs would be more likely to grow faster if they could gain timely access to sufficient external funding.

Qualitative interview evidence suggests that hassle and time in obtaining traditional external finance from banks could be more important than the LSBS suggests (and this increased for those who sought external finance in the last year and then became discouraged). The hassle factor could cause some SMEs to adjust their business model to one that could be bootstrapped and does not require external financing. In some cases this can be a positive change but in other cases it may result in slower and/or lower growth.

Regression analysis highlights the following trends amongst discouraged borrowers:

- Firms with larger numbers of employees are less likely to be discouraged.
- Firms with poor capabilities to raise finance – typically younger firms established 5 years or less and those with less than three directors/managers - are significantly more likely to be discouraged.
- Women and ethnic minority led businesses are significantly more likely to be discouraged than their counterparts.

Qualitative evidence underlines the findings that it is younger, less experienced, less planned and less well-resourced SME management teams that are likely to be discouraged.

4.2 Policy Recommendations

In summary we make 5 policy recommendations which are further detailed below:

1. Better education for entrepreneurs on understanding their risk profile, the variety of finance available and identifying finance that suits their risk profile
2. Provision of investment readiness support which targets those that need it most – younger, smaller high growth businesses with particular attention to ethnic-minority, women-led and rural businesses.
3. Guidance and tools to smaller/younger businesses to improve their financial management and business development
4. Improve the all around financing ecosystem integrating entrepreneurial support with a full range of suitable financing along the finance escalator.
5. Enhancing existing datasets to provide more granular analysis of key

factors in the future (see LSBS data recommendations).

***1. Entrepreneurial Education**: More needs to be done to educate entrepreneurs, particularly those that are inexperienced in accessing finance, about the range and suitability of all forms of financing particularly new emerging forms of P2P, equity (e.g. government VC, angel and crowd funding) and mezzanine.*

***2. Investment Readiness**: Ensure that investment readiness support is targeted at younger, less experienced SME entrepreneurs and that such services are attractive and available to women-led, and rural enterprises. Furthermore, a great deal more could be done to raise awareness of the value of financial planning and the suitability of alternative sources of finance to young, first time and inexperienced entrepreneurs in terms of accessing external finance.*

***3. Financial Management and business development**: Improve financial management skills to facilitate better knowledge and ability to consider different business financing models and approaches which could enable quicker decision making and deliver better growth prospects for these businesses. Furthermore, ensure that financing is linked to ongoing financial management and business development (e.g. through assisting sales and marketing and addressing ongoing external financing requirements).*

external financing requirements).

*4. **Improve business financing networks and finance escalator**: It is imperative that a suitable external financing escalator (with available funding types at appropriate stages of SME growth and development – e.g. see Nesta, 2009; Baldock and Mason, 2015) and financing ecosystem is developed which includes appropriate education and support for entrepreneurs (see Mason and Kwok, 2010) and sufficiently well informed networked between entrepreneurs, intermediary advisors and financiers (Lerner, 2010; Hwang and Horrowitt, 2012) to overcome potential demand-side failures in entrepreneurs knowledge and decision making and facilitates greater realisation of SME growth potential.*

4.3 LSBS data recommendations

The LSBS 2015 has provided considerably enhanced scale and explanatory

powers when compared to previous SBS surveys. However, in order to facilitate further research and achieve more out of the longitudinal study over its duration over the next four years, the following recommendations are presented to enhance existing datasets to provide more granular analysis of key factors in the future:

1. The relationship between financial planning and discouragement could be explored further in more depth in future LSBS surveys, including how businesses pivot and adapt to lack of external financing and the extent to which this stunts potential growth, as opposed to strengthens the eventual business model.

2. The current data collection by the LSBS makes it very difficult to calculate (i) whether businesses receive all of the external funding that they required and potentially more importantly (ii) the extent of shortfall in required external funding. More precise sets of questions would enable more accurate analysis. Furthermore, the collection of R&D tax incentive (tax credits) data might provide a greater indication of the extent of R&D financing required.

3. Even with the expanded size of the current survey, there is insufficient data to conduct a robust examination of the financing requirements of young potential high growth SMEs and aspects of equity and new alternative financing such as P2P, reward/donation and equity crowd funding. This can only be achieved by additional bolt-on sampling.

4. It is important that the LSBS is able to ascertain what type and source of external financing advice and assistance was received. This could refer simply to bank managers, to more specifically tasked specialist finance finders. Also the length of time of using the external financing service could prove instructive, in terms of whether there is a trusted relationship.

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Annex 1: Regression Tables

1.1 Obtained at least some external finance	**Aggregate Model**		
	B	S.E.	Exp(B)
Use of information/advice	-0.380	0.232	0.684
Number of partners			
Number of partners(0)	0.210	0.312	1.234
Number of partners(1-2)	-0.114	0.205	0.892
Capabilities			
Capabilities poor-	-1.131****	0.212	0.323
Capabilities average	-0.700***	0.203	0.496
New regions			
Midlands	-0.261	0.556	0.770
South	-0.425	0.522	0.654
London	-0.696	0.555	0.499
North	-0.607	0.528	0.545
Scotland	-0.227	0.586	0.797
Wales	-0.902	0.636	0.406
Family Business	-0.189	0.207	0.828
A2. Number of employees			
A2. Number of employees (0)	-1.247****	0.296	0.287
A2. Number of employees (1-9)	-0.4756*	0.258	0.622
A2. Number of employees (10-49)	-0.406*	0.227	0.666
A3/A4. Sector			
A3/A4. Sector (Primary)	0.277	0.589	1.319
A3/A4. Sector (Manufacturing)	0.035	0.529	1.036
A3/A4. Sector (Construction)	-0.124	0.549	0.884
A3/A4. Sector (Wholesale/Retail)	0.238	0.530	1.269
A3/A4. Sector (Transport)	-0.566	0.645	0.568
A3/A4. Sector (Accommodation/Food)	-1.089**	0.531	0.337
A3/A4. Sector (Infocomms)	-0.057	0.558	0.944
A3/A4. Sector (Finance/Real State)	-0.463	0.583	0.630
A3/A4. Sector (Professional)	0.157	0.507	1.170
A3/A4. Sector (Administration)	-0.319	0.539	0.727
A3/A4. Sector (Education)	-0.784	0.565	0.457
A3/A4. Sector (Health)	-0.633	0.491	0.531
A3/A4. Sector (Arts)	0.761	0.771	2.141
A6. Age of business - summary			
A6. Age of business (0-5 years)	0.349	0.265	1.417
A6. Age of business (6-10 years)	-0.120	0.256	0.887
A6. Age of business (11-20 years)	-0.139	0.237	0.871
Broad urban/rural categorisation from postcode	-0.256	0.208	0.774
Businesses located in the most deprived 15% of the country	0.032	0.267	1.033
Whether business is women-led	0.153	0.211	1.166
Whether business is MEG-led	0.380	0.316	1.463
Constant	2.946****	1.110	19.031
-2LL	993.12		
	$\chi 2=107$, df=35, p<0.001		
Nagelkerke R^2	13.80%		
Hosmer & Lemeshow test	p=0.720		
Classification accuracy	85.60%		

**** p<0.001

*** p<0.01

** p<0.05

* p<0.1

1.2 Obtained at least some external finance	Bank Overdraft		
	B	S.E.	Exp(B)
Use of information/advice	0.176	0.360	1.192
Number of partners			
Number of partners(0)	0.356	0.705	1.427
Number of partners(1-2)	-0.261	0.329	0.770
Capabilities			
Capabilities poor-	-2.236****	0.324	0.107
Capabilities average	-0.467	0.350	0.627
New regions			
Midlands	-1.936**	0.886	0.144
South	-1.628*	0.853	0.196
London	-1.767*	0.928	0.171
North	-1.832**	0.872	0.160
Scotland	-1.163	0.962	0.313
Wales	-1.819	1.134	0.162
Family Business	-0.563*	0.327	0.570
A2. Number of employees			
A2. Number of employees (0)	-0.765	0.502	0.465
A2. Number of employees (1-9)	-0.341	0.409	0.711
A2. Number of employees (10-49)	0.398	0.367	1.488
A3/A4. Sector			
A3/A4. Sector (Primary)	-0.011	1.129	0.989
A3/A4. Sector (Manufacturing)	-1.710*	0.961	0.181
A3/A4. Sector (Construction)	-1.759*	0.998	0.172
A3/A4. Sector (Wholesale/Retail)	-0.882	0.979	0.414
A3/A4. Sector (Transport)	-1.254	1.255	0.285
A3/A4. Sector (Accommodation/Food)	-2.241**	0.988	0.106
A3/A4. Sector (Infocomms)	-0.895	1.025	0.408
A3/A4. Sector (Finance/Real State)	-0.322	1.462	0.724
A3/A4. Sector (Professional)	-0.161	0.981	0.851
A3/A4. Sector (Administration)	-1.362	0.988	0.256
A3/A4. Sector (Education)	-0.445	1.266	0.641
A3/A4. Sector (Health)	-0.835	1.034	0.434
A3/A4. Sector (Arts)	-0.877	1.259	0.416
A6. Age of business - summary			
A6. Age of business (0-5 years)	-0.467	0.363	0.627
A6. Age of business (6-10 years)	0.200	0.438	1.221
A6. Age of business (11-20 years)	0.460	0.429	1.585
Broad urban/rural categorisation from postcode	0.279	0.331	1.322
Businesses located in the most deprived 15% of the country	-0.546	0.409	0.579
Whether business is women-led	-0.767**	0.339	0.464
Whether business is MEG-led	-0.183	0.519	0.833
Constant	2.484	1.315	201.439
-2LL	403.548		
	$\chi 2$=129, df=35, p<0.001		
Nagelkerke R^2	33.60%		
Hosmer & Lemeshow test	p=0.911		
Classification accuracy	85.00%		

**** p<0.001
*** p<0.01
** p<0.05
* p<0.1

1.3 Obtained at least some external finance	Equity Finance		
	B	S.E.	Exp(B)
Use of information/advice	0.867	0.721	2.379
Number of partners			
Number of partners(0)	18.666	21444.172	127865480
Number of partners(1-2)	0.234	0.697	1.264
Capabilities			
Capabilities poor-	-2.188***	0.903	0.112
Capabilities average	-2.645***	0.912	0.071
New regions			
Midlands	-21.130	40192.953	0.000
South	-20.433	40192.953	0.000
London	-20.985	40192.953	0.000
North	-22.334	40192.953	0.000
Scotland	-21.520	40192.953	0.000
Wales	-19.765	40192.953	0.000
Family Business	0.221	0.727	1.247
A2. Number of employees			
A2. Number of employees (0)	-1.626	1.058	0.197
A2. Number of employees (1-9)	0.137	1.057	1.146
A2. Number of employees (10-49)	0.781	1.022	2.184
A3/A4. Sector			
A3/A4. Sector (Primary)	-1.978	2.465	0.138
A3/A4. Sector (Manufacturing)	0.577	2.302	1.781
A3/A4. Sector (Construction)	-1.116	2.367	0.328
A3/A4. Sector (Wholesale/Retail)	1.616	2.279	5.030
A3/A4. Sector (Transport)	19.686	21610.850	354519175
A3/A4. Sector (Accommodation/Food)	-0.027	2.422	0.974
A3/A4. Sector (Infocomms)	0.170	2.201	1.186
A3/A4. Sector (Finance/Real State)	-0.001	2.348	0.999
A3/A4. Sector (Professional)	0.771	2.324	2.162
A3/A4. Sector (Administration)	1.108	2.665	3.030
A3/A4. Sector (Education)	19.276	40192.970	235162062
A3/A4. Sector (Health)	0.714	2.612	2.042
A3/A4. Sector (Arts)	-	-	-
A6. Age of business - summary			
A6. Age of business (0-5 years)	-1.101	0.838	0.332
A6. Age of business (6-10 years)	0.535	1.397	1.708
A6. Age of business (11-20 years)	-0.814	0.938	0.443
Broad urban/rural categorisation from postcode	0.997	0.808	2.711
Businesses located in the most deprived 15% of the country	-0.028	1.198	0.972
Whether business is women-led	0.577	0.988	1.781
Whether business is MEG-led	-0.985	1.098	0.374
Constant	21.928	40192.953	30434847171
-2LL		90	
		$\chi 2=17$, df=8, p<0.1	
Nagelkerke R^2		47.80%	
Hosmer & Lemeshow test		p=0.025	
Classification accuracy		82.30%	

**** p<0.001

*** p<0.01

** p<0.05

* p<0.1

1.4 Obtained at least some external finance	Leasing/HP		
	B	S.E.	Exp(B)
Use of information/advice	0.521	0.630	1.68
Number of partners			
Number of partners(0)	-1.657*	0.944	0.19
Number of partners(1-2)	-0.058	0.522	0.94
Capabilities			
Capabilities poor-	-1.443***	0.548	0.24
Capabilities average	-0.142	0.588	0.87
New regions			
Midlands	-18.427	8615.840	0.00
South	-19.169	8615.840	0.00
London	-17.357	8615.840	0.00
North	-18.641	8615.840	0.00
Scotland	-18.039	8615.840	0.00
Wales	-18.286	8615.840	0.00
Family Business	0.264	0.606	1.302
A2. Number of employees			
A2. Number of employees (0)	-0.834	0.921	0.43
A2. Number of employees (1-9)	-0.462	0.663	0.63
A2. Number of employees (10-49)	0.423	0.618	1.53
A3/A4. Sector			
A3/A4. Sector (Primary)	0.544	1.137	1.72
A3/A4. Sector (Manufacturing)	0.951	1.084	2.59
A3/A4. Sector (Construction)	1.147	1.183	3.15
A3/A4. Sector (Wholesale/Retail)	1.324	1.162	3.76
A3/A4. Sector (Transport)	18.943	7740.043	168583321
A3/A4. Sector (Accommodation/Food)	-0.837	1.086	0.43
A3/A4. Sector (Infocomms)	0.575	1.535	1.78
A3/A4. Sector (Finance/Real State)	19.293	10751.521	239164728
A3/A4. Sector (Professional)	1.306	1.053	3.69
A3/A4. Sector (Administration)	0.411	1.110	1.51
A3/A4. Sector (Education)	20.110	9985.350	541358822
A3/A4. Sector (Health)	1.605	1.382	4.98
A3/A4. Sector (Arts)	19.326	9271.369	247187417
A6. Age of business - summary			
A6. Age of business (0-5 years)	-0.212	0.655	0.81
A6. Age of business (6-10 years)	-0.171	0.864	0.84
A6. Age of business (11-20 years)	0.068	0.663	1.07
Broad urban/rural categorisation from postcode	0.035	0.534	1.036
Businesses located in the most deprived 15% of the country	0.716	0.952	2.045
Whether business is women-led	-0.611	0.622	0.543
Whether business is MEG-led	-0.473	1.016	0.623
Constant	20.696	8615.841	973102521

-2LL	164.586
	$\chi 2=54$, df=35, $p<0.05$
Nagelkerke R^2	29.20%
Hosmer & Lemeshow test	p=0.404
Classification accuracy	94.60%

**** p<0.001
*** p<0.01
** p<0.05
* p<0.1

1.5 Obtained at least some external finance	Loans		
	B	S.E.	Exp(B)
Use of information/advice	0.463	0.310	1.589
Number of partners			
Number of partners(0)	0.172	0.548	1.188
Number of partners(1-2)	-0.021	0.256	0.979
Capabilities			
Capabilities poor-	-2.092****	0.287	0.124
Capabilities average	-0.797***	0.278	0.451
New regions			
Midlands	0.121	0.618	1.129
South	-0.063	0.558	0.939
London	-0.489	0.625	0.613
North	0.110	0.581	1.116
Scotland	-0.213	0.634	0.808
Wales	-0.583	0.789	0.558
Family Business	0.235	0.277	1.265
A2. Number of employees			
A2. Number of employees (0)	-0.255	0.433	0.775
A2. Number of employees (1-9)	-0.566*	0.326	0.568
A2. Number of employees (10-49)	-0.489*	0.292	0.613
A3/A4. Sector			
A3/A4. Sector (Primary)	1.263	0.867	3.535
A3/A4. Sector (Manufacturing)	0.145	0.796	1.156
A3/A4. Sector (Construction)	0.068	0.815	1.070
A3/A4. Sector (Wholesale/Retail)	0.747	0.801	2.111
A3/A4. Sector (Transport)	0.059	1.061	1.061
A3/A4. Sector (Accommodation/Food)	-0.817	0.819	0.442
A3/A4. Sector (Infocomms)	-0.434	0.853	0.648
A3/A4. Sector (Finance/Real State)	0.119	0.900	1.127
A3/A4. Sector (Professional)	0.778	0.793	2.177
A3/A4. Sector (Administration)	-0.025	0.844	0.975
A3/A4. Sector (Education)	-0.204	0.915	0.816
A3/A4. Sector (Health)	-0.090	0.829	0.914
A3/A4. Sector (Arts)	-0.944	0.994	0.389
A6. Age of business - summary			
A6. Age of business (0-5 years)	0.025	0.345	1.025
A6. Age of business (6-10 years)	0.041	0.364	1.042
A6. Age of business (11-20 years)	0.067	0.306	1.069
Broad urban/rural categorisation from postcode	0.636***	0.265	1.889
Businesses located in the most deprived 15% of the country	0.594	0.406	1.811
Whether business is women-led	-0.152	0.329	0.859
Whether business is MEG-led	-0.118	0.413	0.888
Constant	0.881	1.534	2.413

-2LL	556.798
	$\chi 2=130$, df=35, p<0.001
Nagelkerke R^2	29.20%
Hosmer & Lemeshow test	p=0.220
Classification accuracy	76.90%

**** p<0.001

*** p<0.01

** p<0.05

* p<0.1

1.6 Obtained at least some external finance	Charity/Trust/Grant		
	B	S.E.	Exp(B)
Use of information/advice	0.471	1.104	1.602
Number of partners			
Number of partners(0)	0.329	0.807	1.389
Number of partners(1-2)	-0.933	1.097	0.393
Capabilities			
Capabilities poor-	-2.120***	0.890	0.120
Capabilities average	-1.117	0.799	0.327
New regions			
Midlands	-2.007	1.884	0.134
South	-0.657	1.896	0.518
London	0.853	2.033	2.347
North	-2.092	1.723	0.123
Scotland	-0.859	2.089	0.423
Wales	-2.015	2.246	0.133
Family Business	-0.435	1.345	0.647
A2. Number of employees			
A2. Number of employees (0)	0.676	1.728	1.967
A2. Number of employees (1-9)	0.981	1.211	2.666
A2. Number of employees (10-49)	-0.692	0.905	0.501
A3/A4. Sector			
A3/A4. Sector (Primary)	-42.008	29243.122	0.000
A3/A4. Sector (Manufacturing)	0.095	21799.248	1.100
A3/A4. Sector (Construction)	-3.393	41178.208	0.034
A3/A4. Sector (Wholesale/Retail)	-23.134	8953.770	0.000
A3/A4. Sector (Transport)	-2.852	41178.208	0.058
A3/A4. Sector (Accommodation/Food)	-22.711	8953.770	0.000
A3/A4. Sector (Infocomms)	-22.958	8953.770	0.000
A3/A4. Sector (Finance/Real State)	-19.687	8953.770	0.000
A3/A4. Sector (Professional)	-23.845	8953.770	0.000
A3/A4. Sector (Administration)	-21.542	8953.770	0.000
A3/A4. Sector (Education)	-20.745	8953.770	0.000
A3/A4. Sector (Health)	-20.427	8953.770	0.000
A3/A4. Sector (Arts)	-	-	-
A6. Age of business - summary			
A6. Age of business (0-5 years)	0.964	1.312	2.623
A6. Age of business (6-10 years)	0.312	1.123	1.366
A6. Age of business (11-20 years)	0.328	1.177	1.388
Broad urban/rural categorisation from postcode	0.668	1.070	1.950
Businesses located in the most deprived 15% of the country	-0.410	0.922	0.663
Whether business is women-led	1.402*	0.739	4.065
Whether business is MEG-led	2.341	2.851	10.396
Constant	22.860	8953.772	8471725128

-2LL	79.065
	$\chi 2=57$, df=34, p<0.01
Nagelkerke R^2	56.10%
Hosmer & Lemeshow test	p=0.41
Classification accuracy	83.20%

**** p<0.001

*** p<0.01

** p<0.05

* p<0.1

2. Applied or Not for External Finance in Last 12 months	Applied/Not Applied		
	B	S.E.	Exp(B)
Use of information/advice	-0.923****	0.124	0.397
Number of partners			
Number of partners(0)	-0.180	0.132	0.836
Number of partners(1-2)	-0.238***	0.083	0.788
Capabilities			
Capabilities poor-	-0.300****	0.093	0.741
Capabilities average	-0.147*	0.084	0.864
New regions			
Midlands	-0.321	0.211	0.725
South	-0.116	0.198	0.890
London	-0.295	0.218	0.745
North	-0.153	0.203	0.859
Scotland	-0.029	0.225	0.971
Wales	-0.138	0.261	0.871
Family Business	0.116	0.086	1.123
A2. Number of employees			
A2. Number of employees (0)	-0.795****	0.130	0.452
A2. Number of employees (1-9)	-0.276***	0.105	0.759
A2. Number of employees (10-49)	-0.207**	0.090	0.813
A3/A4. Sector			
A3/A4. Sector (Primary)	0.927****	0.244	2.527
A3/A4. Sector (Manufacturing)	0.429**	0.213	1.536
A3/A4. Sector (Construction)	0.353	0.227	1.423
A3/A4. Sector (Wholesale/Retail)	0.213	0.211	1.237
A3/A4. Sector (Transport)	0.579**	0.277	1.784
A3/A4. Sector (Accommodation/Food)	0.319	0.235	1.375
A3/A4. Sector (Infocomms)	0.243	0.236	1.275
A3/A4. Sector (Finance/Real State)	0.047	0.244	1.048
A3/A4. Sector (Professional)	0.122	0.208	1.130
A3/A4. Sector (Administration)	0.176	0.224	1.192
A3/A4. Sector (Education)	-0.045	0.241	0.956
A3/A4. Sector (Health)	0.249	0.208	1.283
A3/A4. Sector (Arts)	0.018	0.271	1.018
A6. Age of business - summary			
A6. Age of business (0-5 years)	0.245**	0.114	1.278
A6. Age of business (6-10 years)	0.139	0.113	1.149
A6. Age of business (11-20 years)	0.040	0.100	1.040
Broad urban/rural categorisation from postcode	0.055	0.087	1.056
Businesses located in the most deprived 15% of the country	0.229**	0.112	1.257
Whether business is women-led	0.051	0.092	1.052
Whether business is MEG-led	0.530****	0.160	1.699
Constant	.305	0.488	1.357

-2LL 4904.172

$\chi 2=216$, df=35, p<0.001

Nagelkerke R^2 7.20%

Hosmer & Lemeshow test p=0.354

Classification accuracy 68.60%

**** p<0.001

*** p<0.01

** p<0.05

* p<0.1

3. Discouraged from Applying for External Finance in Last 12 Months	Discouraged/not discouraged		
	B	S.E.	Exp(B)
Use of information/advice	0.365	0.316	1.440
Number of partners			
Number of partners(0)	-0.436	0.350	0.646
Number of partners(1-2)	-0.017	0.233	0.983
Capabilities			
Capabilities poor-	-0.901****	0.243	0.406
Capabilities average	-0.337	0.237	0.714
New regions			
Midlands	0.552	0.595	1.736
South	0.350	0.545	1.419
London	0.513	0.591	1.670
North	0.511	0.560	1.667
Scotland	0.505	0.620	1.657
Wales	-0.368	0.759	0.692
Family Business	0.294	0.241	1.342
A2. Number of employees			
A2. Number of employees (0)	-0.835**	0.365	0.434
A2. Number of employees (1-9)	-0.420	0.310	0.657
A2. Number of employees (10-49)	-0.593**	0.279	0.553
A3/A4. Sector			
A3/A4. Sector (Primary)	1.119*	0.670	3.062
A3/A4. Sector (Manufacturing)	-0.294	0.563	0.746
A3/A4. Sector (Construction)	0.045	0.556	1.046
A3/A4. Sector (Wholesale/Retail)	0.230	0.513	1.259
A3/A4. Sector (Transport)	-0.065	0.875	0.937
A3/A4. Sector (Accommodation/Food)	0.193	0.593	1.213
A3/A4. Sector (Infocomms)	-0.067	0.571	0.935
A3/A4. Sector (Finance/Real State)	0.041	0.650	1.042
A3/A4. Sector (Professional)	-0.159	0.520	0.853
A3/A4. Sector (Administration)	0.538	0.576	1.712
A3/A4. Sector (Education)	-0.293	0.638	0.746
A3/A4. Sector (Health)	-0.078	0.504	0.925
A3/A4. Sector (Arts)	0.516	0.670	1.676
A6. Age of business - summary			
A6. Age of business (0-5 years)	-0.660**	0.294	0.517
A6. Age of business (6-10 years)	-0.582*	0.313	0.559
A6. Age of business (11-20 years)	-0.205	0.271	0.815
Broad urban/rural categorisation from postcode	-0.197	0.243	0.821
Businesses located in the most deprived 15% of the country	0.355	0.321	1.426
Whether business is women-led	-0.506**	0.247	0.603
Whether business is MEG-led	-0.796**	0.400	0.451
Constant	0.152	1.262	1.164
-2LL		652.972	
		$\chi 2=81$, df=35, p<0.001	
Nagelkerke R^2		18.80%	
Hosmer & Lemeshow test		p=0.474	
Classification accuracy		66.80%	

**** p<0.001 *** p<0.01

** p<0.05 * p<0.1

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