ACCESS TO FINANCE BY ENTREPRENEURS IN THE UK AND AUSTRIA: DISCOURAGED BORROWERS

by
Judith Miriam Fastenbauer

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School of Management
Royal Holloway, University of London

Declaration of Authorship

I Judith Miriam Fastenbauer hereby declare that this thesis and the work presented in it is entirely my own. Where I have consulted the work of others, this is always clearly stated.

Signed: Judith Miriam Fastenbauer

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Abstract

There is a substantial amount of research on capital structures, credit rationing and discouraged borrowers of small and medium sized enterprises (SMEs). However, there is a lack of research which has focused upon information obtained from the entrepreneurs who established or purchased surveyed firms based on using qualitative research methods to determine how and why particular capital structures are followed, and also how discouragement occurs and on what criteria alternative routes are taken. In order to fill this research gap this study uses interviews with 25 entrepreneurs from the UK and Austria. The results suggest the pecking order theory is not followed in practice, and that there is evidence of differences by gender and to a lesser extent prior experience. Also there are differences between the UK and Austria in relation to finances used due to government support and different national financial systems. In relation to gender the study shows that women face disadvantages due to being the prime care taker to children. Discouragement seems to take place when a business has not reached level of maturity or has declined from a level of stability. Additionally, there is a gap on research to investigate the influence of prior business closure experience on access to finance. Therefore the objective of the thesis is to contribute to the field of capital structures and discouraged borrowers by using qualitative rather than quantitative techniques and test a series of propositions.

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Chapter 1

Introduction and overview

1.1 Introduction

Research on entrepreneurs and small and medium sized enterprises (SMEs) and their capital structures and ability to access finance has been dominated by quantitative studies (Parker, 2002; Graham and Leary, 2011; Barry and Widjaja, 2014). Comparatively little of the research has applied qualitative methods to look at the capital structures followed by SMEs and also there have been few studies which have applied qualitative methodologies to look at discouraged borrowers. In order to increase our level of understanding of capital structure of SMEs, and the extent to which SMEs are discouraged borrowers this study has developed a series of five propositions which when tested throw light on the aforementioned research gaps. The thesis has implications for theory, practitioners and policy makers as well as SMEs themselves.

Research on SMEs and entrepreneurs is justified because governments and practitioners are promoting entrepreneurship to generate the economic benefits associated with new venture formation and growth (European Commission, 2011; Han et al., 2009; Storey, 1994). Access to finance is perceived as important to facilitate the establishment and growth of businesses (European Commission, 2011) and has received a substantial amount of research, especially empirically investigating the existence or otherwise of credit rationing of small businesses in both developed and developing economies (Robson et al., 2013; Freel et al., 2012; Cressy, 1996; Levenson and Williad, 2000; Okurut et al., 2005; Voordeckers and Steijvers, 2005; Tagoe et al., 2005; De Meza and Webb, 2006; Craig et al., 2007; Blumberg and Letterie, 2008). Discouraged

borrowing (Kon and Storey, 2003) has received substantially less attention than credit rationing but interest has increased in the last 5 to 10 years (Han et al., 2009; Freel et al., 2012; Xiang et al., 2014). Studies have applied sophisticated econometric techniques to model bank credit within a changing environment have received substantial attention using macroeconomic data (See Brissimis et al., 2014 for a review) and data from bank lending surveys (See De Bondt et al., 2010; Hempell and Sorenson, 2010). Particularly lacking are studies which have investigated the relationship between discouraged borrowing and credit rationing. Discouraged borrowing is defined as when an applicant does not apply for funding because of a fear of being turned down, even though they have an otherwise feasible and viable business idea (Kon and Storey, 2003; Freel et al., 2012). When looking at whether entrepreneurs are discouraged borrowers this relationship should not be looked upon as a simple dichotomy of discouraged and not discouraged. Indeed, when looking at the concept of discouraged borrowers five main outcomes can be identified: firstly, an applicant has no need to apply for external finance; secondly, an applicant is able to secure all of their desired finance; thirdly, an applicant receives some but not all of their desired finance and thus they are credit rationed; fourthly, an applicant receives none of the desired finance and is credit constrained (Parker, 2002); and fifthly, an applicant is a discouraged borrower. In other words, discouraged borrowing is intrinsically entwined within the concept of access to finance. This study seeks to make contributions to better understanding discouraged borrowing by linking discouraged borrowing to the wider access to finance concept. Furthermore, this study also makes contributions to understanding the capital structures of SMEs and the extent to which the pecking order theory holds in the UK and Austria. Furthermore, the research on capital structure, discouraged borrowers and access to finance has relatively few studies where a qualitative approach is followed and

researchers have systematically talked to entrepreneurs to better understand discouraged borrowing and access to finance.

To fill this gap, this study examines interview transcripts from 25 entrepreneurs in the UK and Austria. The interviews were undertaken by one person, the author of this thesis to ensure consistency in the handling of the questions to the entrepreneurs and to better understand the journeys and tribulations that the entrepreneurs have had.in seeking finance and their encountering of discouraged borrowing. Discouraged borrowing may produce adverse effects upon the concerned entrepreneur and his/her business because the inability to tap into finance hinders the achievement of the entrepreneurs' goals and the ability to weather competitive storms. Equally, discouraged borrowing may be associated with outcomes which are ultimately beneficial. Specifically, a discouraged borrower may use a period of time when they had the profile to be successful recipients to be a discouraged borrower and then later apply for and receive their desired finance. The period of reflection that is associated with being a discouraged borrower may thus be a temporary experience. This notwithstanding, it is intriguing to think whether an entrepreneur who is successful in accessing the desired finance then becomes a discouraged borrower. In other words, it is important to see the patterns of discouraged borrowing interact with the ability to access to finance.

The study has several important implications for providers of finance and policy makers in the UK and Austria to which the interviews relate; but, also it is believed that the results will be generalizable to other European countries such as France, Germany, Denmark, and the Netherlands, as well as to the US and Canada.

More specifically, the objective of the study was to perform a series of interviews with entrepreneurs in the UK and Austria to investigate the extent to which entrepreneurs in small and medium sized enterprises with less than 250 employees in

the UK or Austria followed the pecking order capital structure, and also whether they were discouraged borrowers, linking the later topic to credit rationing. In terms of the theoretical backbone of this thesis it is clear that pecking order theory (Myers, 1984; Myers and Majluf, 1984) is the main theory. However, in seeking to understand discouraged borrowing the theoretical model is less well developed and the writings of Kon and Storey (2003) in essence provides the theoretical model, albeit more at a concept level (Freel et al., 2012). In understanding the capital structures which are followed and also the extent to which discouraged borrowing occurs it is believed that the gender of entrepreneurs will have a strong influence. The liberal feminist theory (Fischer et al., 1993), and social feminist theory (Watson, 2002) take a pessimistic view of the role of women and argue respectively that businesses run by women will achieve a poorer business outcome compared to men, and that women and men are intrinsically different. In the twenty first century it will be interesting to see whether the liberal and feminist theory still apply and result in women being disadvantaged in their formations of capital structures and their ability to avoid becoming discouraged borrowers. In other words, it will be interesting to see whether the economic and social conditions and environment have changed such that the liberal feminist and social feminist theories are redundant when applied to discouraged borrowing and the use of sources of funding to construct capital structures.

Thus, the research follows from a desire to undertake qualitative research to investigate the capital structures followed by the SME, access to finance and especially discouraged borrowers in the UK and Austria and to address themes of gender and prior business experience using pecking order theory, and testing the concept of discouraged borrowing articulated by Ken and Storey (2003). In recent years the Conservative-Liberal Democrat coalition government has launched policies and initiatives to try and address perceived difficulties in SMEs being able to access external finance (See

www.bis.gov.uk). But, there is a lack of qualitative research which has taken the approach of using discouraged borrowing as the focus of attention and related that to access to finance. Indeed, most of the research and evaluations has focused upon the impact to businesses and the wider economy of having finance support schemes such as the Enterprise Finance Guarantee Scheme (EFG) (Allinson et al., 2013). It is therefore appropriate to undertake this research on entrepreneurs in the UK.

Research on entrepreneurship and SMEs has historically been impeded because of a lack of consensus on what constitutes a SME (Storey, 1994). The definitions have often varied from one country to another, and clearly that makes it difficult for researchers because they are no longer comparing like with like (OECD, 2002). There has been movement towards consensus within Europe (Allinson et al., 2013) but on a global scale and specifically research on SMEs and entrepreneurs in China indicates that that could be up to 3000 workers in a business in the building sector, or a more modest 500 limit for the retail and wholesale industries (Wang, 2010). And clearly there is a huge difference between an upper limit of 250 employees in Europe or 3,000 employees in China. The next section therefore provides the definition of small business to be used in this study. Section 3 presents the key research gaps which this thesis addresses. Section 4 provides the focus and purpose of this study. This then leads to section 5 which presents the significance of the study. Lastly, in section 6 the thesis structure is presented.

1.2 Definition of small businesses

However, before proceeding further, there is a need to clarify and provide a definition of SMEs. The department for Business, Innovation and Skills (BIS) defines a SME as a firm with less than 250 employees (BIS, 2015). Specifically, they divide

SMEs into three groups: micro firms with 0-9 employees, small firms with 10-49 employees, and large firms with 50-249 employees (BIS, 2015). The European Union (EU) provides definitions of SMEs which focus upon employment, sales revenue turnover and the balance sheet (European Commission, 2005). The EU defines micro enterprises as having less than 10 employees, a 2 million euro turnover, and a 2 million balance sheet (European Commission, 2005). They define a small enterprise as having less than 50 employees, a 10 million euros turnover and a 10 million balance sheet. Their definition of a medium sized enterprise is a firm with less than 250 employees, a 50 million euro turnover and a 43 million euros balance sheet.

Thus, within the UK and Europe it is clear that there is a strong movement towards consensus. But, beyond Europe there is still variation in the definitions of what constitutes a SME (UNIDO, 2006). Intuitively, most if not all people from academia as well as the general public will have a perception of what is meant by an SME, and would usually be couched with the caveat 'it depends' (Westhead et al., 2012; Storey, 1994). The 'it depends' would be influenced by industrial sector and market where a given business operates. The time under consideration also has a bearing upon quantifying and qualifying business size. For example, Deakins and Freel (2006) quoting Cotis (2004) give the example that European labour productivity, as measured by GDP per hours worked, has more than doubled since 1970. In other words, at the risk of simplification, it would be reasonable to contend that the same amount could be produced now with less than one half the number of workers that were needed 40 years ago. In that respect the conception of what exactly is meant by an SME surely has changed. But, defining what a SME is has always been a difficult issue amongst scholars and policy makers, often generating unresolved debates (Storey, 1994; Bolton, 1971).

The challenges include the terminology, the form and the scope to adopt and use. One of the key studies to address the aforementioned issues was the UK Committee of Inquiry on Small Firms, chaired by Sir John Bolton (Bolton, 1971). This important study is hereafter referred to as the Bolton Committee. The Bolton Committee distinguished both 'statistical' and 'economic' definitions of small firms.

In order to try and overcome the definitional problems of the economic and statistical definitions, the European Commission coined the terminology 'small and medium-sized enterprises' (SMEs). To repeat, in the UK a small firm is one which has 0 to 49 employees, medium firms have 50 to 249 employees and large firms as having 250 or more employees (See BIS, 2009). This study therefore adopts the UK BIS (2009) and EC (2005) employment definition of a SME. The financial criteria of the EC are not adopted in this study.

1.3 Research Gaps

There is a large literature which has looked at capital structure and tested the extent to which the trade-off theory or pecking order theory is valid and representative of the capital structure followed by large firms as well as SMEs (See chapter two). There is also a large theoretical literature addressing credit rationing (See Parker, 2002), and there is an equally substantial number of applied studies, particularly of a quantitative nature (See Robson et al., 2013) but there are still large research gaps in relation to understanding capital structures and also discouraged borrowing. Discouraged borrowing is a comparatively recent term (Kon and Storey, 2003). Human capital has been a popular vehicle to look at credit rationing by previous researchers most attention has centred upon variables which are readily available such as the level of education of the owner-managers or entrepreneurs (See Parker, 2002; Ucbasaran et

al., 2008). There is a smaller subset of literature which has recognised the importance of prior ownership experience but this literature remains small and under-developed. Prior research has mainly focused upon making distinctions between novice, serial and portfolio entrepreneurs (Ucbasaran et al., 2008) and there is only a small emerging literature that recognises the need to further incorporate business closure experience (Ucbasaran et al., 2012; 2010). This study however, differs from previous studies on capital structures, discouraged borrowing, and access to finance by following a qualitative methodology but by asking structured questions face to face and allowing the entrepreneurs to have a 'voice', as well as taking forward further questions particularly pertaining to discouraged borrowing which could not be analysed in the quantitative study. And this study is responding to both older as well as more recent calls for more empirical research on capital structure (Jibran et al., 2012; Ibrahim and Ibrahim, 2015), and discouraged borrowing (Ken and Storey, 2003).

Credit rationing has been explored in researching entrepreneurs in developing countries such as Ghana (Robson et al., 2013) and SMEs in Uganda (Okurut et al., 2005). In developed nations there are a much larger array of studies and approaches followed including: entrepreneurs in the UK (Wright et al., 1997a, b), and SMEs in, Spain (Capra et al., 2002), Holland (Blumberg and Letterie, 2008), Germany (Lehmann and Neuberger, 2001), Italy (Piga and Atzeni, 2007) and Sweden (Carling and Lundberg, 2005).

This study endeavours to contribute to knowledge and fill these gaps and using qualitative research techniques to better understand capital structure, access to finance, and discouraged borrowing, of entrepreneurs in the UK and Austria. It is against this background that the next section provides a clear delineation of the objectives and key questions to be pursued in the dissertation.

1.4 Focus and purpose of this study

This thesis has researched the capital structures which are established at start up and how they evolve over time; and it has mapped the presence of discouraged borrowing to identify the themes which are associated with discouraged borrowing – placing particular importance upon gender and also prior business experience. Changing social and economic conditions in the fieldwork also emerged as an important theme. However, by also looking at difficulties in trying to secure finance this helps to place the discouraged borrowers and also the use of finance structures in a clearer context. Whilst this study is looking at a complex issue of discouraged borrowing it is believed that the solution to understanding it is simplified, rather than becoming more complicated, by bringing together the aforementioned access to finance scenarios. The use of qualitative research techniques and a series of 25 interviews from London, UK, and Vienna, Austria have been carefully analysed. The key unit of analysis in this thesis is the entrepreneur. In the entrepreneurship and SME literature sometimes the use of these terms is used interchangeably, but there are distinct differences between the two terms. In entrepreneurship research an entrepreneur is often defined in terms of a person who establishes, purchases or inherits a business (Westhead et al., 2008); and it is the creation of an organisation which may be used as the difference between entrepreneurs and business owners (Westhead, Wright and McElroy, 2012). A SME may be owned by an entrepreneur or they may be run by managers and there may be a separation of ownership from the person making the day to day decisions in the businesses. An entrepreneurial venture is typically defined as independent and is thus not a subsidiary of a larger company or organisation. Whilst the aforementioned may appear semantic it is important to use entrepreneurs as the centre of analysis to better facilitate the linking together of discouraged borrowing and access to finance to the pecking order theory. The qualitative research allows the researcher to draw upon themes of gender, and also

prior entrepreneurial experience and how they influence the likelihood of entrepreneurs being discouraged borrowers and/or having difficulties accessing finance.

A number of studies have looked at human capital and entrepreneurial experience to look at gender (See Ucbasaran et al., 2008; 2012) per se. The literature on human capital and entrepreneurial experience is dominated by Mike Wright, Paul Westhead and Deniz Ucbasaran. Wright et al. (1997a) in an early paper which utilised human capital theory to better understand prior entrepreneurial experience presented the argument that business performance is influenced by the level of education, their prior training, the nature of their social ties, their ability to use networking skills and prior entrepreneurial experience. Specifically, their dichotomy between novice and habitual entrepreneurs, and further dichotomy within habitual entrepreneurs between serial and portfolio entrepreneurs has dominated the literature (Ucbsasaran et al., 2008). Beyond the aforementioned trio of researchers other scholars have made contributions to demonstrate that entrepreneurs who have built up higher levels of education, a greater amount of work experience and especially portfolio entrepreneurs and entrepreneurs who have been through the closure or exit of one or more business are in a better position compared to novice entrepreneurs (Bruderl et al., 1992; Davidson and Honig, 2003; Dimov and Shepherd, 2005; Ucbasaan et al., 2012). Exactly disentangling how and why the more experienced entrepreneurs behave differently to novice entrepreneurs is difficult to exactly pinpoint. However, this notwithstanding, Westhead et al. 2003b and 2005b have suggested that the higher level of competitive advantage applies to facets and elements of information search, as well as the identification of opportunities, and the exploitation and pursuit of such opportunities. But, prior business ownership experience is just one part of human capital. This researcher wishes to see whether gender has any relationship with capital structure and also discouraged borrowing and

also whether changes in economic and social conditions also have a bearing on discouraged borrowing.

This investigation is advanced by performing interviews with entrepreneurs and carefully analysing the transcripts to test a series of propositions which are presented in chapter three. The research follows a structured interview schedule. This in part reflects the dominance of the positivist approaches used to test hypotheses with large or small scale data sets. However, given the structured nature of how pecking order theory operates it was believed that a structured interview approach worked better than unstructured interviews, or using a grounded theory to better understand Entrepreneurs behaviour.

From the above, this thesis keys into emerging studies on pecking order theory, the Kon and Storey (2003) concept of discouraged borrowing and the role of gender and prior business experience and their relationships with discouraged borrowing and the other outcomes associated with access to finance. The thesis makes contributions towards both the development of theory and our knowledge of entrepreneurs' behaviour which can be utilised by policy makers. Based on these, specifically, the key objective of the study is to answer the following question: which factors are associated with entrepreneurs' choice of capital structure and the extent to which there are discouraged borrowers in Austria and the UK.

1.5 Significance of the study

Even before the credit crunch (Wainwright, 2012; Presbitero et al., 2014) the substantial numbers of applications for external finance, especially to banks, and entrepreneurs and SME owners' willingness to pay interest rates over and above the prevailing market, or advertised rates, can be interpreted as an indication of an excess

demand for credit by small business and entrepreneurs (Parker, 2002). In the wake of the credit crunch there is further evidence of the increased difficulties encountered by entrepreneurs and owner-managers to secure finance (Wainwright, 2012). But, the evidence base has been overwhelmingly from quantitative studies, and research which has used qualitative methods (Wainwright, 2012) are sparse and there has been a limited academic discourse on discouraged borrowing.

The study makes several important contributions. Firstly, the research is one of the rare studies which uses a qualitative approach to help understand pecking order theory by looking at entrepreneurs' journeys and also their encountering of discouraged borrowing. A reticence to apply for external finance, as manifested in discouraged borrowing is a financial issue which lends itself more readily to qualitative research. And whilst all financial issues may be sensitive this is not as difficult or emotionally challenging such as business closures. Moreover, the qualitative approach allows a better understanding of capital structures and also discouraged borrowing by giving the entrepreneurs the opportunity to have 'voices'. Whilst statistical and econometric techniques cannot be used on the twenty-five entrepreneurs the quotations that the researcher has been able to use from the transcripts does allow an equally rich picture to emerge.

Secondly, the capital structures followed and access to finance focusing upon discouraged borrowing are rarely brought together. Only by looking at these other outcome scenarios in conjunction between capital structures utilised and discouraged borrowing will allow us to fully understand the factors which are associated with entrepreneurs not applying for finance when they should be applying.

Thirdly, following on from the above point by linking together the pecking order theory and analysing the prevalence of discouraged borrowing does allow theoretical

contributions to be made. The factors of gender and prior business ownership experience are tested in relation to a series of propositions to see whether pecking order theory and discouraged borrowing can together be developed.

Fourthly, the vast majority of studies on discouraged borrowing, as well as credit rationing and credit constraints use cross-sectional data – typically with respondents asked questions at one point of time to ask questions relating to 'now' and an earlier point of time – typically either one or three years earlier. Such studies do not allow interaction with the respondents and clarification of what exactly is meant in a question. In qualitative research the face-to-face engagement and safety net of clarification and probing does add to the richness of the research.

Fifthly, and following on from the earlier point by listening to the journeys that the entrepreneurs have had allows the researcher to have a better understanding of the dynamics and time perspectives associated with discouraged borrowing, as well as the other outcomes associated with seeking finance. It also deals with what could be termed as 'non-linear relationships' in the sense that the entrepreneurs may have had success in accessing finance, and then become discouraged borrowers. Or an entrepreneur may have been discouraged and used that time to regroup and then subsequently access some, or all of their desired finance. These relationships cannot be adequately captured in a linear regression model but they can with qualitative research.

Lessons will be identified for theory, practitioners, government, policy and businesses. In particular, the extent to which gender and economic and social changes influence capital structures and discouraged borrowing may allow government to need to re-think their support for entrepreneurs.

1.6 Thesis structure

This thesis is organised into seven chapters. Chapter two will provide a review of the theories of finance which are used in this thesis and focuses upon the Modigliani and Miller (1958) theorem, trade off theory, pecking order theory and market timing theory, before looking at credit rationing and discouraged borrowing. Chapter three will provide a review of the literature on the financing of small businesses. This will provide the reader with the state of the literature before presenting at the end of chapter three the propositions which are tested in the second half of the thesis.

Chapter four will provide the methodology utilised in the thesis. This will include a section on epistemology and philosophical reflections, and then a rationale for the study - the UK and Austria. This will be followed by a discussion on the epistemology followed in the thesis, and then a justification of the time frame of the study, and linking that to macroeconomic conditions in the economy. Section five will present the operationalization of the research. This will be followed by the data collection instruments in section six. Section seven will provide details of the piloting and screening processes for the qualitative research. Section eight will describe the process of interviewing the entrepreneurs, and how the qualitative research. Section nine will provide a critique of quantitative and qualitative research and the steps which can be taken to ensure valid interviews and interpretations, depending upon which route – quantitative or qualitative is followed. Section ten will outline the problems which were encountered and overcome in the process of gathering and interpreting the material used for the subsequent chapters of the dissertation.

The methodology chapter will then be followed by three chapters which build the empirical contribution of the researcher by analysing interview transcripts. Chapter five utilises the interview material from the 25 entrepreneurs to better understand the

capital structures followed and the process of discouragement and access to finance in the UK and Austria. The extent to which gender and prior business experience has influenced the main research topics is also developed. And, by being able to talk through events with entrepreneurs the identification of common elements or facets associated with a greater, or a less likely, extent of entrepreneurs do follow the pecking order theory, and whether they are discouraged borrowers and have difficulties accessing finance is explored. Additionally the linkages and interactions between being discouraged and applying for finance are also explored in the discussion of the main findings in chapter six.

Lastly, chapter seven will provide the conclusion to the thesis. The chapter will bring together and develop the key discussions of the topics of capital structure and discouraged borrowing to provide overall conclusions on the findings of the dissertation for both theory and applied knowledge. The chapter will include implications for theory, and policy recommendations. The later part of the chapter will reflect upon the limitations and caveats in using and interpreting the interview material will also be presented. Lastly, the final section will also offer suggestions for future research.

Chapter 2

Theories of Finance

2.1 Introduction

The purpose of this chapter is to provide a review of the main theories associated with understanding the capital structure of firms and discouraged borrowing of SMEs. SMEs offer a cafeteria of benefits to economies and policy makers alike: employment creation, innovation and knowledge spillovers, exporting, regional development, and clusters of development in economies (Ibrahim and Ibrahim, 2015; Storey, 1994). Capital structure indicates the way firms finance themselves through some combination of internal funds, debt finance and equity (Hillier et al, 2011). It is assumed that in raising finance firms "attempt to find the particular combination that maximizes the overall market value of the firm" (Saxena, 2014, p.41). Firms' capital structures are important because it is the foundation of the firms at start-up (Panda, 2006) and influences their activities throughout their life cycles and thus impacts upon capacity to expand and grow, the level of competitiveness, investment decisions, and the ability to sustain profitability (ab Razak and Rosli, 2014). In other words, capital structure has a strong influence on all aspects of managers' activities. Jahanzeb et al. (2014, p. 11) argue that, "capital structure requires decision-making tactics that is an art to tackle complex situations". Additionally, the right capital structure needs to be in place because once a firm becomes a listed company, if it alters its financing arrangements this can impact upon the stock prices when it is announced (Narmandakh, 2014; Myers, 1984). This notwithstanding, there is a great deal of debate over precisely which sources of funds when combined together provides the most efficient route (Igbinosa and Chijuka, 2014). This chapter focuses upon the Modigliani and

Miller (1958) theorem, pecking order theory, trade-off theory and agency theory from the financial literature on capital structure. There is a lack of consensus about which theory provides the most representative theory to understand SMEs capital structure (Serrasqueiro and Caetano, 2015). By using qualitative research techniques in chapter five and six the chapter identifies entrepreneur characteristics associated with capital structure and discouraged borrowing and tests the propositions presented at the end of chapter three. Each of the aforementioned theories is examined in turn, and then a conclusion completes the chapter.

2.2 The Modigliani and Miller 1958 Theorem

Surprisingly, until the late 1950s and the writings of Modigliani and Miller (1958) there was a lack of a widely accepted theory of capital structure. In essence in the Modigliani and Miller (1958) model they argued that how a firm is financed in a world of perfect markets has no bearing upon the value of a firm (Roerink, 2014). The thrust of Modigliani and Miller's (1958) work is that the managers of firms are unable to change the value of a firm by restructuring the firms' securities. But, their theory is entirely dependent upon extremely restrictive assumptions – the capital markets operate perfectly, and also that managers don't follow them by treating debt and equity indifferently (Saxena, 2014). In practice, the vast majority of firms have their own individual target debt-to-equity ratio to fulfil (Focardi and Fabozzi, 2004). Following from this aspect of firms' behaviour there is the need to contemplate how real world business taxes will influence capital structuring and managerial decision making. Modigliani and Miller (1963) five years after their seminal work they added corporate income tax to their original model. The thrust

of their second major work is that the increase of debt level can increase the value of the firm (Focardi and Fabozzi, 2004).

Roerink (2014, p. 1) cited Villamil's (2008) assessment of the pioneering contributions of Modigliani and Miller as follows: "In the context of the modern theory of finance, it represents one of the first formal uses of a no arbitrage argument (though the 'law of one price' is longstanding). More fundamentally, it structured the debate on why irrelevance fails around the Theorem's assumptions: (i) neutral taxes; (ii) no capital market frictions (i.e., no transaction costs, asset trade restrictions or bankruptcy costs); (iii) symmetric access to credit markets (i.e. firms and investors can borrow or lend at the same rate); and (iv) firm financial policy reveals no information." Clearly, the aforementioned assumptions are strong ones and provide a model, albeit one that does differ markedly to the real world. The subsequent theories of capital structures built upon the Modigliani and Miller (1958) theorem.

More than fifty years ago Modigliani and Miller (1958) paved the way for the development of Corporate Finance which is arguably one of the most important subject groups within Business and Management Schools. There has been a substantial amount of empirical research related to testing the Modigliani and Miller (1958) theorem. Ibrahim and Ibrahim (2015) looked at the effect of SMEs cost of capital on their financial performance in Nigeria. Specifically they had data on five SMEs who were listed on the Alternative Securities Market (ASEM) of the Nigerian Stock Exchange Market over the period 2008-2012. They tested the effects of SMEs' cost of capital on financial performance using the cost of equity and return on asset; and they found that "SMEs' cost of capital have no significant effect on their return on assets which is the measure of financial

performance" Ibrahim and Ibrahim (2015, p. 11). Thus, their study found evidence to support the Modigliani and Miller (1958) study.

Abor (2005) tested the Modigliani and Miller theorem by looking at the relationship between capital structure and profitability of 22 listed firms on the Ghana Stock Exchange over the period 1998-2002. Abor's (2005) results found a significant relationship between the short-term debt divided by the total capital (SDA) and return on equity (ROE) which is interpreted as meaning that profitable firms use more short-term debt to finance their business activities. This notwithstanding they also found a negative relationship between the ratio of total long-term debt to total assets (LDA) and ROE. He concluded that the profitable firms were very dependent upon debt and that it was their main financing option.

Graham and Leary (2011) reviewed the state of previous research which has been published over the period 2005-2010. They identify measurement issues which may have blighted previous research with regard to studies which have used cross firm, cross industry and within firm analysis of cross-sectional and also panel data. Graham and Leary (2011) in their critique of the capital structure literature draw attention to the fact that the supply side of capital affects corporate capital structures and that this has tended not to adequately reflected upon by researchers or incorporated into their models and/or the interpretation of their results.

2.3 Trade off Theory

The implication of the Modigliani and Miller (1958) model is that managers should make decisions to increase the level of borrowings to the highest level in order to take complete advantage of tax laws (Baker and Martin, 2011).

But, the higher the level of external debt, and particularly values approaching 100% would result in costs of financial distress. In other words, an overdependence upon external debt means that internal generated finance may not always be enough for day to day business activities; and thus the firm can still meet its financial obligations but with difficulty and consummate increases in anxieties for managers and workers alike. And, from a market perspective firms which are perceived as borrowing excessively may incur financial distress and thus the value of the firm declines. In other words, whilst the firm enjoys tax benefits from using debt finance they need to behave sensibly to avoid encountering financial distress and causing adverse market sentiment. In extreme situations financial distress may result in the bankruptcy of the firms. From the Static trade off theory each firm has a target debt to equity ratio and takes steps to achieve their targets (Brealey and Myers, 2006).

Megginson et al. (2007) provide an overview of the two forms of bankruptcy costs: direct and indirect. Direct costs quickly accumulate and include the time taken to complete all of the paperwork, the need to employ professional specialists such as accountants and lawyers who charge expensive fees on an hourly basis. The paperwork needs to be printed and copied multiple times and all copies checked. Such administrative tasks all take time and increase the direct costs. Whilst the indirect costs of dealing with bankruptcy are usually in terms of time displaced by managers at all levels of the firms, and likewise the time lost by employees not being able to do their day to day activities. Even if the firm is going to be kept going as a going concern the employees will be distracted by the bankruptcy proceedings.

De Jong et al. (2010, P. 1303) commented on the entwining together of pecking order theory and trade off theory and their common predictions as follows

"if a firm issues a security and its debt ratio is currently below its target debt ratio, both the static trade off theory and the pecking order theory predict the firm to issue debt: the static trade off theory implies that a firm moves towards its target, while in a pecking order world a firm will always cover its external finance needs with debt as long as it is not constrained by its debt capacity".

In sum, the heart of static trade off theory is that managers need to find the balance between the costs and the benefits of debt to determine their optimal debt to equity ratio. This involves finding the ideal point between bankruptcy and a debt tax shield. In juggling the capital structure it is clear that various options can be applied by firms (Myers, 1984).

Flannery and Oztekin (2011) used a huge data set covering 37 countries and a 16 year time period, 1991 to 2006 to explore the institutional determinants of measured adjustment speeds. Flannery and Oztekin (2011) found that countries that possess strong legal institutions, and also have a financial structure which is based on the effectiveness of capital markets instead of intermediaries have a tendency to adjust to their targets much more rapidly.

Bradley et al. (1984) provides an overview of the early empirical literature on the quest to discover the optimal capital structure model. Shyam-Sunder and Myers (1999, p. 222) quote Bradley et al.'s (1984) conclusion as: "their findings 'support the modern balancing [trade off] theory of capital structure.'" Hardiyanto et al. (2014) tested the Trade-Off Theory of capital structure in 228 public from 8 industry sectors listed Indonesian companies by using a Partial Adjustment Model and following Flannery and Rangan's (2006) approach. They found that the speed of adjustment rate to the target capital structure was 43.79%; and, that this supported trade-off theory. De Jong et al. (2010) look at US firms with investment

grade ratings over the period 1985-2005 and find that between 78.5% and 83.0% of the firms years show decisions that are inconsistent with the static trade off theory.

Barry and Widjaja (2014) looked at the determinants of capital structure before and after the financial crisis of 2008 using panel data from financial and non-utility firms listed in the S&P 500 index over the period 2004-2011. Their findings are consistent with the earlier research of Rajan and Zingales (1995), De Jong et al. (2008) and Akdal (2010). Shyam and Sunder (1999) used data on 157 firms over the period 1971-1989 from Compustat. Their econometric models and results suggest that in the case of a sample of mature corporations the pecking order theory works well. They also found that the simple target adjustment model was also found to be consistent with the results. This notwithstanding, Shyam and Sunder (1999) raise concerns over whether the pecking order theory can be applied successfully to data which includes growth firms who are highly likely to have invested in intangible assets.

The Titman and Wessels (1988) study used US data on 469 firms over the period 1974 to 1982 and made substantial contributions to understanding the capital structure of firms by looking at different types of debt instruments – short term, long term and convertible debt, separately, rather than combining together all forms of debt finance. Titman and Wessels (1988) found that firms who had unique or specialised products were characterised as possessing low debt ratios, and they also found that smaller firms tended to use significantly more short-term debt than larger firms.

There are studies which have found that firms have a tendency to refrain from issuing stock, and instead maintain and expand huge cash reserves, as well as

other assets which can be easily converted into cash if required (Chen, 2004). This notwithstanding several studies find evidence to support trade-off theory and this manifests itself in evidence which confirms the role of target leverage.

Hovakimian, et al. (2004) used a sample of 3,712 firm years with security issues and 1,253 firm-years with security repercussions and covers the 1980-1998 period data obtained from the SDCs New Issues database. They examined whether security issues and repurchases adjust the capital structure toward the target. In their regression models they find that the time-series patterns of debt ratios imply that only debt reductions are initiated to offset the accumulated deviation from target leverage. Hovakimian, et al. 2004 also find that equity issues and repurchases have no significant lasting effect on capital structure.

Hovakimian, et al. (2001) had 39,387 firm years covering the period 1979-1997 using data from the 1997 Standard & Poor's Compustat Annual files. Hovakimian, et al. (2001) find that when firms adjust their capital structures they tend to move toward a target debt ratio that is consistent with theories based on trade-offs between the costs of benefits to debt. Hovakimian, et al. (2001) advanced the research debate because their tests explicitly accounted for the fact that firms may encounter impediments to movements toward their target ratio, and furthermore that the target ratio may change over time as the firm's profitability and stock price change.

Rajan and Zingales (1995) investigated the determinants of capital structure choice by doing research on the financing decisions of public firms in the major industrialized countries. They had data on the following countries: USA (2583), Japan (514), Germany (191), France (225), Italy (118), UK (608), and Canada (318) where the figure in parentheses are the number of firms. Rajan and

Zingales (1995) found that the factors identified in earlier studies which were correlated in the cross-sectional research with firm leverage in the US were also found to be correlated in their research on other countries. Rajan and Zingales (1995) used the Global Vantage database to look at firms over the period 1987-1991.

Fama and French (2002) found that more profitable firms, and also firms with fewer investments have higher dividend payments – and this is consistent with both pecking order theory and trade off theory. Secondly, they find that more profitable firms are less leveraged and this is consistent with pecking order theory nut not consistent with trade off theory. Thirdly, they find that those firms who possess more investments are associated with less market leverage and that is what is predicted from trade off theory and a complex pecking order model. Lastly, they find that short term variation in investment and earnings is mostly absorbed by debt which is consistent with pecking order theory. Fama and French (2002, p.30) acknowledged the problem of testing the pecking order theory and trade off theory "where shared predictions are confirmed, attributing causation is elusive: we cannot tell whether the results are due to trade-off firms, pecking order forces, or indeed other factors overlooked by both."

Bartiloro and Iasio's (2012) study throws light upon how the recent turbulence in the financial markets has influenced firms' capital structure. Specifically, Bartiloro and Iasio (2012) found that the balance sheet of financial intermediaries has been largely financed by the use of short-term market instruments and that this is especially the case in the US. The implication of their research findings are that it makes it hard for financial intermediaries to make adjustments to their debt when their firms encounter turbulent environments.

Harrison and Widjaja (2014, p. 59) in reviewing the literature argued, “most studies show a positive correlation between leverage and tangibility (and size), which implies a role for trade off theory in capital structure decisions. However, this role for trade off theory is contradicted, since the correlation between leverage and profitability is negative.

2.4 The Pecking Order Theory

The trade-off theory is unable to explain why there are a substantial number of firms who exhibit high levels of profitability display little dependence on debt (Igbinosa and Chijuka, 2014). When firms are enjoying high levels of profitability, and especially year-on-year suggests that the firms are paying higher degrees of corporate tax than they would otherwise have paid if their capital structure was different, and their debt levels were higher. Pecking order theory takes up this challenge (Chandra, 2008).

Pecking Order Theory is associated with the work of Myers (1984) and Myers and Majluf (1984) and it is presented as an alternative theory to trade-off theory. It imbues a simple and elegant behavioural pattern of the seeking of finance, combined with a title which instantly conveys what the theory is about. In a community there can be a pecking order in order of importance from the leader, right down to someone in the middle order to a person who has the lowest standing in the group. This concept was in essence applied to finance but in a revolutionary manner. In essence the pecking order theory assumes that entrepreneurs are capable of recognising which sources of finance are available and can then rank the aforementioned sources. It is argued that the internal sources of finance will be top of the pecking order and systematically used until they are exhausted. Next, in

the absence of internal sources of finance the entrepreneurs turn their attention to debt finance. The entrepreneurs then use the debt finance until that has also been exhausted. Finally, it is argued that equity finance is the last type of finance which the entrepreneurs will utilise.

Entrepreneurs are in the enviable position about knowing more than those externally about how their businesses behaves, the status of orders, how resources are combined together, and the overall trajectory of their businesses. Indeed, Serrasquiro and Caetano (2015, p. 447) argued that, "the main pillar of the pecking order theory is the information asymmetry, and so SMEs that face problems of asymmetric information and higher costs of external equity may adopt a financing strategy close to the forecasts of that theory". The asymmetric problem between the entrepreneur and outsiders suggests that this can make it costly to raise any type of external finance (Hovakimian et al., 2004). When entrepreneurs seek finance there is the problem of adverse selection and moral hazard. Adverse selection is defined as a situation where two parties have different levels of information and was originally applied to the insurance industry. Specifically, adverse selection is a situation where an individual's demand for insurance is positively correlated with the individual's risk of loss, and the insurer is unable to allow for this correction in the price of insurance (See Myers and Majluf, 1984).

Whilst moral hazard occurs when one person takes more risks because someone else bears the burden of those risks. Specifically, the moral hazard may occur when the actions of one party may change to the detriment of another after a loan decision from a bank has been made. Entrepreneurs who utilise their own sources of finance are able to circumvent problems of adverse selection by using internal sources of finance. Specifically, if the entrepreneurs utilise retained earnings this has the advantage of not requiring costs to be incurred which happens

when external finance is sought, and the retained earnings can quickly be transferred to the appropriate account and spent to help the entrepreneur meet his/her objectives. Debt financing as indicated above is second in the pecking order and obviously is associated with adverse selection. By having a long term business association with providers of debt finance such as banks this can help to reduce the adverse selection problem and also help to reduce the costs incurred by the entrepreneur. In this regard the number of years that the entrepreneur has dealt with the bank (Comeig et al., 2015) as well as the gender of the loan officer or banker may influence the ability of the entrepreneurs to receive their desired finance. Thirdly and lastly there is the possibility of entrepreneurs using equity finance to allow them to meet their financial needs but clearly the adverse selection issues become intensified.

The amount of information that an entrepreneur needs to process does vary greatly across the three types of finance. Internal finance requires the least amount of information and the entrepreneur because he or she is likely to be involved in all aspects of the business, especially among smaller sized SMEs, means that information processing costs are minimal. Debt finance requires more information to be assembled and processed by the entrepreneurs, and in the event that the loan officer or bank managers that they have dealt with has been transferred to another branch will further add to the information costs because the entrepreneur will have to be better prepared to make their pitch for debt finance. Equity finance requires the greatest amount of information assembly and processing time. Learning about the process of floating shares on the stock market is stressful and will often require the use of specialist lawyers and accountants and possibly consultants whose forte is stock market flotation. Moreover, even after the entrepreneur has gone through the process of floating the shares there is the danger that he or she may be forced

to sell their shares at a price below the market value in the scenario where the IPO is not a success.

The small business and entrepreneurship literature places great emphasis upon entrepreneurs' reasons for starting businesses, and especially the entrepreneurial personality (Meredith et al., 1982). The five core traits are: self-confidence, risk-taking activity, flexibility, need for achievement, and strong desire to be independent. Clearly the three types of finance in the pecking order theory will see increasing degrees of conflict with the personality traits. Internal finance sees a minimal conflict with the personality traits; but, with debt finance there are conflicts with the personality traits' desire for independence. The entrepreneurs need to provide the providers of debt finance with information about how the business is doing and their strategy for the future. Periodically the providers of the debt finance may require that they are updated with the financial performance of the business including sales and profitability and further projections on performance. Lastly, in the case of equity finance the entrepreneurs will have to give away a proportion of their equity stake in their business and that will reduce their flexibility, independence and how they report and reveal information to shareholders. With the equity route the entrepreneurs' control of the business may be lost. It is thus understandable why the equity type of finance is thus third in the pecking order theory.

Chen (2004) observed that pecking order theory is popular because it is a theory which fits with the real world and the commonly observed practice of firms to eschew issuing stock and being content to assemble huge cash reserves; however, he found that a modified version of the pecking order theory applied to Chinese firms whereby firms use retained profit, equity and then long term debt. Narmandakh (2014) further developed Chen's (2004) work to Mongolian firms.

The pecking order theory suggests that successful profitable firms by focusing more on internal finance will produce a lower level of debt ratio (Jahanzeb et al., 2014).

There are many studies carried out which support the pecking order theory when applied to SMEs' capital structure decisions. Ramalho and Silva (2009) studied the leverage decisions of Portuguese firms and used a binary choice model for the year 1999. They found that although larger firms are more likely to use debt, conditional on their having some debt, they find that firms' size is negatively related to the proportion of debt used by firms.

Ou and Hayes (2006) used data from the Federal Reserve Boards 1993 and 1998 Small Business Finance Surveys to run models with 8,198 firms in the combined models, and 4,637 and 3,561 firms in 1993 and 1998, respectively to explore the acquisition of additional equity by small firms. Ou and Hayes (2006) found that only a very small number of small firms acquired external equity. Instead, they found that internal capital is by far the most important source of capital. Indeed Ou and Hayes' (2006) concluded that "the study provides more evidence of the importance of internal financing – internal equity, owner's loans, and business savings or retained earnings, as the major source of finance of business operations for all small firms – large or small and young and old".

Chittenden et al. (1996) built upon the earlier research of Hall and Hutchinson (1993) who explored newly quoted small firms, and Van der Wijst and Thurik (1993) who researched the determinants of small firm debt ratios. Chittenden et al. (1999) reported results which suggest that a variety of financial structures are observed in practice which are consistent with trade-offs of various costs to the owner-managers. However, Chittenden et al. (1999, p. 59) argue "the

over-reliance on internally available funds and the importance of collateral, in the case of unlisted small firms, are likely to be major constraints on economic growth".

Jibran et al.'s (2012) review of the evidence on pecking order theory tested with data on developing countries was generally supportive of pecking order theory. Asquith and Mullins (1986) in an early study found evidence to support pecking order theory. Famma and Fench (2000) found evidence in support of the pecking order theory. Specifically, they found that profitable firms were less levered in comparison to non-profitable firms. Sogorb-Mila (2005) used panel data of 6,482 non-financial Spanish SMEs over the period 1994-1998 and finds that non-debt tax shields and profitability are both negatively related to SME leverage; but, size, growth options and asset structure have positive relationships with SME capital structures.

Rajan and Zingalas (1995) looked at the determinants of capital structure choices of public firms in the G7 countries and they found that approximately 19% of the variation in the firms leverage was explained by the growth rate, the level of profitability, firms' size, asset tangibility. Thus, Rajan and Zingalas's (1995) study of G7 countries also supports pecking order theory. Wald (1999) took Rajan and Zingalas's (1995) work further by analysing data from the 1993 Worldscope data set of 4,404 firms to look at capital structure in the following countries: the United States, the United Kingdom, Germany, and France. He both confirms prior findings of Rajan and Zingalas (1995) using an alternative data set, and he also extends the analysis using additional firm characteristics – earnings volatility, sales growth and non-debt tax shields. Bharma et al. (2010) explored the impact of time-varying macroeconomic conditions on optimal dynamic capital structure using a large cross-sectional data base and a standard trade off model. They found

that firms behave much more conservatively when they make decisions about refinancing when the macro economy is doing badly. They also found that the earnings default boundary is counter-cyclical, and the capital structure is pro-cyclical.

Serrasqueiro and Caetano (2005) used data on 53 Portuguese firms over the period 1998-2005 and applied the LSDVC dynamic estimator used by Bruno (2005) to test the pecking order theory and also trade off theory. They found that the pecking order theory and trade-off theories are not necessarily mutually exclusive as a way of explaining capital structures. Specifically they find that the older firms and also the more profitable firms are less likely to use debt which supports the pecking order theory; but, the firms perform substantial adjustments to their actual debt as they aspire to obtain an optimal level of debt. Frank and Goyal (2003) extended the work of Shyam-Sunder and Myers (1999) and looked at a firm's net debt issued on the financing of deficits, and they found that pecking order theory was not supported by their regression results,

Thus, to sum up capital structure, Jahanzeb et al. (2014, p. 11) argued "pecking order theory argues to minimize the firm's insiders-outsiders issues related to information asymmetry by following a particular financing hierarchy". The hierarchy is internal finance, debt finance and equity finance. With pecking order theory the implication is that equity is only issued as a last resort if debt finance or internal finance is not available. Myers (1984, p.585) succinctly summed up the behavioural pattern of managers as "you will refuse to buy equity unless the firm has already exhausted its "debt capacity" – that is, unless the firm has issued so much debt that already that it would face substantial additional costs in issuing more".

2.5 Market Timing Theory

The huge corpus of previous research on capital structure is dominated by static trade-off theory and pecking order theory. More recently the market timing model has been presented but this has not attracted anywhere near the same level of interest as the two main theories. With the market timing theory the capital structure of a firm is viewed as being a result of the cumulative product of past attempts to time the equity market (Gordon, 2014). With the market timing theory the firms are believed to have a preference for the issuing of stock on the basis that the share price is historically at a high level, and also have a preference to repurchase their shares when they perceive that the share prices are at a low point. Thus, this encapsulates the market timing model which is associated with the writings of Baker and Wurgler (2002).

Hovakimian, et al. (2004) used data over the period 1982 to 2000. Security issues were identified using annual firm level data from the Compustat Industrial, Full Coverage and Research files. Hovakimian, et al. (2004) examined whether market and operating performance affect corporate financing behaviour because they are related to target leverage. They find that firms issuing and receiving both debt and equity offset the deviation from the target resulting from the accumulation of earnings and losses, and that this is consistent with trade off theory. Their second main research finding is that their results imply that market-to-book firms have low target debt ratios. Thirdly, they find that high stock returns increase the probability of equity issuance but have no effect on target leverage, and that result is supportive of the market timing theory.

Setyawan's (2012) study of Indonesian companies found that the market to book ratio negatively influences market leverage and that supports Market Timing Theory. Elliott et al. (2008) were critical of Market Timing Theory. But this

notwithstanding their research findings were that market mispricing was significantly prominent for financing decisions, and thus this supports Market Timing Theory.

There is a huge literature which has attempted to identify the specific characteristics of firms which are associated with capital structure choices; and to endeavour to understand managers' decision making processes in building up capital structures (Berger and Udell, 1998; Peterson, 2002). The characteristics of firms which previous researchers have looked at in relation to capital structure are the level of profitability, the size of the firms, the tax shield effects and also liquidity (Deemsomsak et al., 2004; De Jong et al., 2008). Berger and Udell (1998) looked at the growth stages of firms; Peterson (2002) looked at industrial classification; Bolton and Freixas (2000) looked at risk preferences; and, Kuralko et al. (1997) looked at the personal security and autonomy factors in firms' assessments of financing alternatives.

2.6 Credit Rationing

The previous sections have identified the main theories associated with capital structures. There is also a literature which has looked at access to finance and the extent to which firms are credit rationed or credit constrained; and a literature which has looked at discouraged borrowing. Interest in both strands of the access to finance have intensified in the wake of the 2008 financial crisis (Cowling et al. 20120. Lee et al. (2015, p. 370) have commented "five years after the initial shock to the economy, bank lending had still not recovered – particularly for smaller firms". Unsurprisingly, given the prominence of debt finance in the capital structure models, scholars have been fascinated to see how prevalent credit

constraints and credit rationed are (Freel et al. 2012). Stiglitz and Weiss (1981) presented a model of credit rationing and argued that credit rationed firms were those firms who regardless of their level of creditworthiness they were still not able to secure credit at any price. De Meza and Webb (1987) further highlight the issue of credit rationing which is attributable to asymmetric information; but argue that in equilibrium there can be an over-supply of credit, rather than rationing which is the case in the Stiglitz and Weiss (1981) model. The earlier sections highlighted the problem of asymmetric information, and when firms approach banks for debt finance – of a short, medium or long term duration, and even if they have some form of collateral and a willingness to pay high interest rates relative to the Bank of England base rate they become credit rationed.

There is a huge literature which has looked at the difficulties encountered by SMEs in obtaining external finance and several scholars have placed the blame on credit rationing on the informational opacity between banks and SMEs (Guiso and Minetti, 2010; Beck et al., 2005, 2008). This notwithstanding it is important to note that equity and debt are the two main sources of external finance (Demirguc-Kunt et al., 2006) and that the use of the stock exchange is often unavailable (Shane, 2008; Fatoki and Asah, 2011).

Guiso and Minetti (2010) used the data from the NSSBF which is conducted by the Board of Governors of the Federal Reserve System and the Small Business Administration. They focus upon a subsample of 5,247 firms with at least one lending institution. They find that firms with more valuable and more homogeneous assets differentiate borrowing more sharply across concentrated creditors. Secondly, they find that borrowing differentiation is inversely related to restructuring costs and positively related to firms' informational transparency.

They conclude that the structure of credit relationships is used to discipline creditors and entrepreneurs.

Meisenzahl (2014) used a matched firm-bank credit contract data set to see whether the moral hazard problem in the monitoring model (MH) associated with Holmstrom and Tirole (1997) or the adverse selection effect in the costly state verification model (CSV) of Townsend (1979) is the most relevant agency problem for small firms. He finds that the CSV model is able to explain in excess of two out of three of the credit constraints; and also he finds that bankruptcy costs are 28% of expected output and the implied annual rate of return is approximately between 5 to 8%, and this leads him to conclude the CSV model is plausible. In contrast Meisenzahl (2014, p. 76) finds that for the MH model the agency problems focuses upon a "bank balance sheet channel [and] [t]his channel emphasises the importance of bank variables for loan pricing and the loan amount, a hypothesis that does not hold for small business loan contracts".

Lee et al. (2015) responded to a call by Mina et al. (2013) on the need to pursue research on the effects of the aftermath of the financial crisis upon the capacity of firms, and especially innovative firms to access finance. Specifically, Lee et al. (2015) used a large sample of 10,708 firms and a rich data set from the UK Small Business Survey of SMEs with less than 250 employees to understand how firms before and after the credit crunch were able to access finance. They found that innovative firms – those who have introduced entirely new products or processes - were more likely in comparison to other firms to be turned down for finance, and, that this outcome is intensified after the credit crunch; and that non-innovating firms also experienced a deterioration in general credit conditions.

Allen et al. (2004) and Van Gestel and Baesens (2009) have emphasised that banks have gradually expanded the level of use of credit scoring and tried to be more sophisticated in their applications of credit scoring, and that the combined effect of these changes is that it has lowered the fixed costs of lending. A second effect of the changes is that the need of the banks to utilise collateral has also diminished. This notwithstanding the movement towards perfect but still none the less incomplete information has been hampered by some financial providers retaining exclusivity on the information developed from credit scoring and an established business relationship (Bofondi and Gobbi, 2006). In other words, some financial institutions don't pool the information that they have about firms. Fraser et al. (2015, p. 81) in their review article about entrepreneurial finance and growth argued that "from a low base, crowdfunding, including gifting, reward, loan and equity models, is growing rapidly as those with small amounts to invest are attracted by apparently greater returns than available through bank deposit savings." Clearly, if crowdfunding continues to grow this may have an impact upon the level of credit rationing, discouraged borrowing and also the pecking order of types of finance which are used by firms.

Fatoki and Asah (2011) performed an empirical study on 107 SMEs King William's Town in Eastern Cape Province of South Africa. Fatoki and Asah (2011, p. 175) argued that "training and communication on the requirements of banks and trade creditors can help to make SME owners to get investment ready and thus improve access to debt." Thus, soft support to SMEs may be just as effective as hard support for firms in developing countries.

Lee and Drever (2014) used a sample of 3500 UK SMEs from the Small Business Survey (SBS) for 2012 to investigate whether firms in deprived areas were more likely to encounter difficulties in securing external finance in

comparison to firms in non-deprived areas. Lee and Drever (2014) produce two interesting findings: firstly, the firms in deprived areas were more likely than other firms to perceive that access to finance was a problem; and, secondly, in their regression models which controlled for firms' level of growth, credit scoring and the firms' characteristics (such as age, sector, size, number of directors, and the gender and education of the key business decision maker)found that there was no evidence that the firms in deprived areas actually did find it harder to obtain finance.

2.7 Discouraged Borrowing

More recently another branch of the access to finance literature has emerged which has looked at discouraged borrowing. Specifically, Kon and Storey (2003, p. 47) present a model which develops the concept of a 'discouraged borrower' that is "defined as a good firm, requiring finance, that chooses not to apply to the bank because it feels its application will be rejected." Kon and Storey's (2003) model shows that in a scenario of perfect information between banks and firms there is no discouragement, and secondly that discouragement is minimal in scenarios where the banks possess no information and then allocate funding to firms on a random basis with a lottery. This notwithstanding, Kon and Storey (2003, p. 48) concede that their model does have difficulty in dealing with application costs which are defined as "cultural reluctance to provide outsiders with information, lack of literacy skills to complete application forms, intimidation of entering the 'marble halls' of the bank. Yet banks in developed economies, with good screening techniques, may impose heavy costs upon applicants in terms of information requirements".

Both before and after the Kon and Storey (2003) model and the identification of the term ‘discouraged borrowers’ there have been attempts to quantify how many firms are discouraged borrowers. Raturi and Swamy (1999)’s study of Zimbabwe included ‘all borrowers’ whilst the Kon and Storey (2003) model is limited to only ‘good borrowers’. Xiang et al. (2014, p. 2) try to coin a variation of the Kon and Storey (2003) concept and refer to “discouraged finance seeker” and extend the idea of being discouraged in seeking debt finance to also include being discouraged to also apply for equity which includes private equity and venture capital.

The Levenson and Willard (2000) paper is another key paper in the discouraged borrowing literature. Levenson and Willard (2000) used data from the USA and found that twice as many small firms are discouraged compared to firms who are credit rationed. Xiang et al. (2014) utilise responses of 2732 firms to surveys included in the Business Longitudinal Database Expanded Confidentialised Unit Record Files which were gathered by the Australian Bureau of Statistics which included firms with less than 200 employees over three calendar years 2005, 2006 and 2007. Xiang et al. (2014) found that the firms denied finance in 2005 or 2006 were 14.2% and 14.8% less likely to apply in 2007, respectively. Furthermore Xiang et al. (2014, p. 16) “found that such firms were more discouraged in seeking debt finance than equity finance, with those denied debt finance being up to 16.4 to 25.3 percent less likely to apply for debt finance in subsequent years”.

Vos et al. (2007) argued that the presence of firms who don’t make full use of the external financing options may be attributable to suboptimal business goal-setting. Thus, in relation to discouraged borrowing it can be argued that whilst the assumption of perfect information in models is unrealistic, the assumption that the

firms are all capable of achieving a maximisation outcome is a moot point. The Vos et al. (2007) paper suggests that discouraged borrowing may be exacerbated by firms possessing suboptimal goals. Other promising areas of research on discouraged borrowing will involve applying the role of entrepreneurial cognition in financing and investment decisions (Wright and Stigliani, 2013)

Ferrando and Mulier (2014) tested Kon and Storey's (2003) model to data from the Euro zone, a data set which matched the participants of the Survey on Access to Finance of small and medium sized Enterprises (SAFE) with their financial statements from quarterly data over the period 2nd quarter 2010 until 3rd quarter 2013. Ferrando and Mulier (2014, p. 27) define discouraged borrowers as "borrowers that do not apply for a bank loan because they expect that the application will be rejected and compare them with firms that *did* apply." There definition does thus differ slightly from the standard discouraged borrowing definition and they found that more borrowers are discouraged when the average interest rate which is charged by the banks is higher, when the potential return on investment is lower, and when application costs and also opportunity costs of bank lending are higher. They also conclude that the majority of the discouraged borrowers in their study would be unable to secure a loan if they applied for debt finance, but they conceded that their models are unable to control for the bank-firm relationship.

2.8 Conclusion

This chapter has looked at the key theories of capital structure: the Miller and Modigliani theory, trade-off theory, pecking order theory and market timing theory. Each of the theories with the exception of market timing theory has

attracted a huge degree of scholarly interest. The studies have found evidence to support the theories as well as findings which are counter to the theories. Shyam-Sunder and Myers (1999) commented that scholars have undertaken research on the belief that there is an optimal debt ratio, despite the fact that the key sources associated with pecking order theory (Myers and Majluf, 1984, Myers, 1984) there is no optimal debt ratio. Instead, it is the presence of asymmetric information associated with securing external finance which contributes to the hierarchy of sources of finance to utilise by firms. Subsequently, Myers (2001) whilst synonymous with pecking order theory, argued that no universal theory of the debt and equity choice exists, and that there is no reason to expect to find one. But, this has not stopped the development of four main theories: the Modigliani and Miller (1958) theorem, trade off theory, pecking order theory and market timing theory. Each of the aforementioned theories has been tested to a barrage of tests around the world. There are several criticisms which apply to all of the theories of capital structure analysed in this chapter. Narmandakh (2014, p. 1.) argued that "the main downfall of the theory is that, it was developed using data from large corporations based in the USA. The extent to which these theories still can be applied to developing countries is still doubtable". An early study by Booth et al. (2001) found that the capital structure of firms is often explained by a group of variables which are consistent with agency theory, static trade off theory and information asymmetric theory. Whilst more recently Chang and Dasgupta (2009) extensively criticised a large part of the previous research which has used target adjustment models. Specifically, Chang and Dasgupta (2009) demonstrated that researchers may see supposed target adjustment behaviour, even in scenarios where the firms were generated by using simulations where no target behaviour is assumed to happen (De Jong et al. 20110. Delcoure (2007) studied the capital structure

determinants in Central and Eastern European countries and found that pecking order theory, trade off theory, and agency theory were all unable to explain firms' capital structure choices. Shyam-Sunder and Myers (1999, p. 225) conceded that "it will be difficult to distinguish pecking order and static trade off predictions at high debt levels".

Chapter 3

Literature Review

3.1 Introduction

SMEs are an important force for economic growth (Degryse et al., 2012; Venturelli and Gualandri, 2012; Angela, 2011), development (Bianchi, 2010; Angela, 2011), jobs creation and due to their dynamism and flexibility an engine of innovation and business growth (Angela, 2011; La Rocca et al., 2011). It is often claimed that these innovative, young, rapidly growing companies create economic growth (Venturelli and Gualandri, 2012; Hsu, 2010) and a high proportion of new jobs (Hsu, 2010). Elston and Audretsch (2011) argue that high-technology entrepreneurs have been an economically important source of innovation and growth in the US in the last 2 decades.

Due to the significant role of such firms in the economy, sources of finance to support their business are important (La Rocca et al., 2011). Acquisition of finance is a vital process in the start-up and new businesses growth (Seghers et al., 2012; Roper and Scott, 2009). Easy access to finance can support the creation of new businesses, the innovation process as well as the growth and the development of the existing businesses (Angela, 2011). Therefore, financial development needs to be promoted in order for an efficient allocation of talent leads to higher production, job creation, and social mobility (Bianchi, 2010).

Access to finance is often perceived as the key constraint stated by entrepreneurs when starting-up (Sena et al., 2012; Blumberg and Letterie, 2008; Elston and Audretsch, 2011). Entrepreneurial activity, even though a correctly entrepreneurial opportunity has been identified (Elston and Audretsch, 2011), is hindered by limited

access to financial resources (Blumberg and Letterie, 2008; Elston and Audretsch, 2011). This is especially the case with access to capital markets (Elston and Audretsch, 2011) due to the imperfections of such markets such as inadequate juridical and legislative frameworks (Angela, 2011), and the enterprises' own intrinsic characteristics (Venturelli and Gualandri, 2012), which is related to the problems of information asymmetry (Angela, 2011; Venturelli and Gualandri, 2012; Heyman et al., 2008; La Rocca et al., 2011; Chua et al., 2011; Elston and Audretsch, 2011; Zhang, 2011; Harrison et al., 2010) and a lack of a credit history (La Rocca et al., 2011). This is further exacerbated by insufficient guarantees for creditors (especially for small and young firms), limited and inadequate range of financing products (Angela, 2011; Venturelli and Gualandri, 2012) and collateral (Elston and Audretsch, 2011; Degryse et al., 2012; Blumberg and Letterie, 2008) which makes investing or lending risky (Harrison et al., 2010; Hopp, 2010; Hsu, 2010; Blumberg and Letterie, 2008). Firms that tend to hold lower cash balances facing more severely limited access to sources of external credit (Natke and Falls, 2010).

Especially, innovative start-ups often face more difficulties in accessing finance from traditional sources, such as banks or public stock markets, and therefore the private-equity sector covered this 'equity-gap' (Fairchild, 2011). The constraints caused by an equity gap occurs when there is a shortage of equity investment during the initial stages and the financial requirement is too small to be economically possible for venture capital, but too large for business angels (Venturelli and Gualandri, 2012). Research on entry decisions for US high technology entrepreneurs showed that 84% experienced a shortage of capital at some point and 48% of entrepreneurs are currently experiencing liquidity constraints (Elston and Audretsch, 2011).

Therefore the acquisition and effective use of rare resources are a major challenge for entrepreneurs (Brinckmann et al., 2009). Zhang (2011) argues that in

order to start up a company, a variety of skills are required; besides gathering people with a variety of expertise and acting as a manager to implement a business plan; the founder has to gain access to capital. Atherton (2009) argues that founders show preferences for known sources of finance, seemed easy accessible, regardless of the actual costs of acquiring such finance. Furthermore, social capital and mutual empathy developed through pre-existing relationships was seen by founders as improving prospects of securing finance from these sources (Atherton, 2009).

Bianchi found that when credit constraints are relaxed, financial development encourages higher production, job creation, and social mobility (Bianchi, 2010). Nevertheless, some may decide not to apply for credit due to fear of rejection which leads to firms staying with credit constraints. Natke and Fall's (2010) research shows that those firms that didn't apply for credit in the last 3 years because they had feared being denied credit have less money than other firms except the minority-owned firms in the sample, where there is no difference in money holding behaviour found (Natke and Falls, 2010).

Section 3.2 reminds the readers of definitions of credit rationing and discouraged borrowing. This is followed in section 3.3 by looking at financial patterns, and the key factors which have been found to be important in helping to explain the use of sources of finance. This then leads in section 3.4 to a review of the range of sources of finance. Section 3.5 shows ways which have been identified in theory and practice to overcome information asymmetries between borrowers and lenders. Section 3.6 takes the material on signalling further and provides an indication of the theories utilised in previous research. Section 3.7 looks at the relationships between business and entrepreneur characteristics and access to finance. Section 3.8 looks at qualitative research on access to finance. Section 3.9 presents the propositions which follow from

this and the previous chapter, and which are tested in the second half of the thesis. Lastly, section provides a concise conclusion.

3.2 Definitions of credit rationing and discouraged borrowing

The ability to compare like to like, to compare an 'apple' with an 'apple' rather than an 'apple' is very difficult because of the lack of a clear consensus on what exactly is meant by credit rationing (Petrick, 2005). More specifically several scholars such as Steijvers and Voordeckers (2007), Foltz (2004) and Kochar (1997) have a common consensus of perceiving and defining credit rationing as a situation where the demand for credit exceed the supply of credit – at the prevailing level of the interest rate. To illustrate the gulf in the research we can take other scholars such as Freel (2007), Nykvist (2008) and Piga and Atzeni (2007) who believe that credit rationing is best defined and conceptualised upon a willingness of the borrowers to pay a level of interest rate which was much higher than the prevailing market rate, but however, were turned down. And, yet there is room for further disagreement with other scholars emphasising the cost of finance (Nissanke, 2001) or the availability of collateral (Ikhide, 2003) for the borrowers to use to support the credit application; and, others have utilised both such as Barham et al., 1996; Mushinski and Pickering, 2007).

The amount of finance received has also been of interest and debate in the literature with Chakravarty and Scott (1999), Atienno (2001), and Blumberg and Letteriee (2008) emphasising that credit rationed individuals were those who were partially or entirely rejected. And, the exact nature of the study also has a bearing upon the definitions followed. For example, Jappelli (1990) and Bigsten et al. (2000) viewed an entrepreneur or a small business as being credit constrained when the entrepreneur/business who had their request for credit rejected by financial institutions.

Whilst Winters-Nelson and Temu (2005) put the emphasis upon a lack of finance from any source to undertake profitable investments, and Russo and Rossi (2001) argued it was a business which was lacking the financial flexibility to change their exposure according to their needs.

A parallel literature which at times overlaps with the credit rationing literature is the discouraged borrower literature. There is a higher degree of consensus in the discouraged borrowers over the actual definition of the key concept. The main definition of discouraged borrowers has emphasised that it is borrowers not applying for credit for fear that their application may be turned down and hence the change in their minds about actually applying (Fletschner, 2008; Levenson and Willand, 2000; Crook, 1999, Kon and Storey, 2003.

Previous research has focused most attention upon simple, generic, straightforward comparisons between novice and habitual entrepreneurs as a simple binary relationship – entrepreneurs are either novice or they are habitual entrepreneurs (Birley and Westhead, 1993; Kolvereid et al., 1999). Then by the late 1990s it was recognised that habitual entrepreneurs were more complex, and sub-groups or sub-categories of habitual entrepreneurs became more popular, especially moving the analysis to portfolio, serial and novice entrepreneurs (Westhead and Wright, 1998a, 1999; Westhead et al., 1999; Ucbasaran et al., 2008). Wright et al. (1997) examined such more complex sub-groups or sub-categories but their research has only taken the research so far.

3.3 Financial patterns

3.3.1 Size and Age

The capital structure choice is one of the most important decisions encountered by firm management (Degryse et al., 2012). The Pecking order theory is presented in greater detail in the previous chapter, but it expects a positive relationship between firm size, collateral, growth opportunity and leverage but a negative one with profitability and leverage. It argues that financial managerial preferences depend on information asymmetries and of transaction costs, using retained earnings, followed by debt, and then by equity (La Rocca et al., 2011). Whereas, in the Trade-off theory firm size, collateral and profitability show a positive relationship with leverage but a negative relationship between growth opportunity and leverage (Degryse et al., 2012).

The usage of informal capital in the firm´s early stage of development such as resources from the firm's owner, friends and family is identified as the single most important source of finance for young businesses by Mac an Bhaird and Lucey (2011). Alternative bootstrap finance was also used by founders before applying formal finance to increase the capitalization of the venture before approaching lenders (Atherton, 2009). Personal assets are used as collateral to gain access to business debt is particularly important, as evidence shows the relatively high use of debt in the youngest categories (Mac an Bhaird and Lucey, 2011). In a bank-oriented country such as Italy research shows that debt is fundamental for business activities in the early stages, where it represents the first choice and is more used by younger firms than older firms (La Rocca et al., 2011). Also, Atherton (2009) research showed that almost all of the new ventures in his sample were funded by founder equity and formal debt.

Only a small number of young firms source external equity from venture capitalists, business angels, private investors, and government grants, which is generally

employed by firms in specific sectors (Mac an Bhaird and Lucey, 2011). In Atherton's (2009) research he showed that external equity was only evident in 3 of the 26 start-up ventures he studied, indicating that it is not a particularly common form of start-up finance. Founders that were unable to secure all the finance they required from lenders and equity investors used alternative financing as last resource (Atherton, 2009).

Older firms over time increasingly use their profits for investments, which are the single most important source of finance for those firms having passed the early stage (Mac an Bhaird and Lucey, 2011). Consistent with the Pecking Order Theory, the research finds that more profitable firms have less debt (Heyman et al., 2008). A study on a bank-oriented country shows that when older firms increased profitability, the capital structure is slowly rebalanced by using accumulated internal resources (La Rocca et al., 2011). Also short-term debt is employed progressively as the age of the firms increases (Mac an Bhaird and Lucey, 2011). Also, La Rocca et al.'s (2011) research shows that there is a positive and significant relationship between Growth Opportunities and leverage.

Regarding industry La Rocca et al. (2011) argues that the strategic financing choices of small businesses of the business life cycle show the existence of a life-cycle pattern and is consistent over time and quite similar among different industries and institutional contexts. Degryse et al. (2012) argues that SME capital structure exhibits both significant inter- and intra-industry variation despite this, different industries show support for the pecking order theory for almost all industries, except the catering and leisure sector, where more profitable firms have larger debt which is in line with the trade-off theory (Degryse et al., 2012).

Atherton's (2009) results show that the pecking order provides only a partial explanation of new venture funding patterns. Several different patterns reveal new

venture financing strategies preferences by funders such as starting loans from enterprise agencies, or short-term debt in the form of an overdraft was either changed into a longer-term loan after some time by the lender. This was done when additional funding was acquired in the form of long-term debt from the same lender, or informal lending was matched against bank lending through a loan guarantee scheme.

Venture financing strategy may be determined by the founder, for example when a founder uses his own capital and informal equity from a friend to invest in a prototype product and the decision to start up a business only occurred after the product showed potential of commercialization, or another example is a new venture was founded by directors who had previously started successful business and had founder equity with a strong ´track record´ of previous financial providers and could focus on equity investments from known sources (Atherton, 2009). Further pecking order anomalies could be caused by founders after experiential learning additional funds were taken out as they realized the scale and operation cost of the venture is greater than originally anticipated. Also, founders may acquire a ´bundle´ because any single source was not providing enough capital but also provided the founder with dependency on multiple sources (Atherton, 2009).

3.3.2 Financial structure for high tech and innovative firms

Innovative firms suffer from major barriers to access external financing due to information asymmetries (Venturelli and Gualandri, 2012) and a fear of the uncertainty associated with their innovative activities (Freel, 1999). According to the financial growth cycle (Berger and Udell, 1998 cited by Venturelli and Gualandri, 2012), when an innovative firm faces financial constraints, the use of informal sources of capital (own and/or relatives' savings, or equity provided by business angels) is needed.

Research shows that high-technology entrepreneurs for whom capital constraints are problematic, as they negatively impact also influence the probability of firm start-up, the most important sources of funds in their decision to start up a firm are Small Business Innovation Research (SBIR) grants, followed by credit cards, and earnings from a salaried job are (Elston and Audretsch, 2011). These factors encourage the use of equity as the form of financing best suited to support innovative projects (Venturelli and Gualandri, 2012).

After the critical start-up and growth stages and firms have achieved stability, they tend to diversify their sources of finance, since the information asymmetries become less severe, which enable them to operate on the financial markets (Venturelli and Gualandri, 2012). However, a US study shows that once the high tech firm is established and growing, and has more alternative sources of funds (e.g. loans, and equity), it prefers to use cash flow from operations and uses SBIR grants, rather than other sources of external funds (Elston and Audretsch, 2011).

Brinckmann et al., (2009) found that on the growth of new technology-based firms a considerable proportion of new firms are generally able to finance their growth through operations. This is generally reliable with the well-established preference to use internal over external funds (Elston and Audretsch, 2011).

3.3.3 Finance decision based on Location

The Pecking order anomalies may be caused by a range of local factors especially to each firm and their interaction with funders and their preferences as well as the policies. This suggests that patterns of start-up financing are constrained by the funder general framework as well as founder experience and therefore specific local

contexts and conditions for each new venture´s funding decisions strategies are created (Atherton, 2009).

Berggren and Silver (2010) show that large differences between Swedish regions in the financial decision making by firms. In the metropolitan areas where firms are relatively smaller and younger, low levels of control aversion, high appreciation of a new owner's possible positive contribution to the firm, especially professional investors while bank financing is the lowest in this region are shown. Firms in regional centres are older and larger, and the level of professional external equity from VC firms and BAs is lower than those in metropolitan, still more motivated to approach BA and VC firms than debt finance. However, professional investors are more likely to deny finance (only 25% are successful).

In smaller municipalities, banks are the most important financier. Firms in small cities appear to have a closer relationship with their financiers (86.6 % have bank loans) and are relatively control averse. Firms in very small cities and towns, financial intermediaries are not as numerous as in the metropolitan or regional areas and are a number of old industrial towns that have traditionally been dependent on one large employer, entrepreneurial activity is rather low in these towns and greater focus on trying to attract industrial partners (Berggren and Silver, 2010).

3.4 Sources of finance

In this section attention centres upon the range of sources which can be used by SMEs and entrepreneurs. Financial resources can be obtained through operations such as expense reduction, invoice management, trade-credit, factoring of receivables and securing financial resources and through non-operations (external finance) such as funding from founder savings, family and friends, angel investors, venture capital,

banks, or governmental credits (Brinckmann et al., 2009). In other words, firms face a wide range of sources of finance, although as indicated earlier not all sources are realistically possible at all stages of the life of a firm (Robson et al., 2013).

3.4.1 Founders' equity (or savings)

Founders' equity comes from personal sources such as personal savings or equity released from property (Atherton, 2009). One study by Atherton (2009) indicates that founders equity is the first preferred form of start-up finance for most (22 out of 26) start-ups in his study. Elston and Audretsch (2011) empirically examined the role of personal capital in the entry decision for US high technology entrepreneurs and show that earnings from another job (58%) are a common way that these entrepreneurs secure funding to start up their firm and therefore wealth appears to have a positive impact on the probability of starting up a US high technology firm (Elston and Audretsch, 2011). Additionally, own funds help the founder to stay in control over the new venture and therefore are preferred to be invested ahead of external funding (Atherton, 2009).

3.4.2 Family and friends

Informal finance from friends and family improve founder equity investment and may add capital to top up and fill the gap or void from the insufficient funding from formal lenders and investors (Atherton, 2009). Furthermore, Chua et al. (2011) found that trans-generational succession intention improves relationships between entrepreneurs and lenders. Family governance acts as third party guarantees plus they positive, directly increase the amount of debt financing obtained by the new ventures as

the family involvement directly lowers the agency concerns of lenders (Chua et al., 2011).

3.4.3 Bootstrapping

Bootstrapping can be defined as managing "to handle the need for resources at relatively low or no cost" (Winborg 2009, p. 78) and is used to enhance initial founder equity (Atherton, 2009). Winborg's (2009) study on 120 new business founders in Swedish business incubators found that 88% had used bootstrapping methods to some extent. Bootstrapping was divided into the following motivation categories: there are cost-reducing bootstrappers, capital constrained bootstrappers and risk-reducing bootstrappers. With experience the resource acquisition changes from initially focusing on reducing costs towards reducing the risk in the business. Motives for bootstrapping were 'lower costs' (mentioned by 89%), and 'lack of capital' (mentioned by 50%). Moreover, 'fun helping others and getting help from others', 'Saving time', 'Managing without external finance', and 'Reducing risk' were mentioned by quite a large number (Winborg, 2009). Furthermore, Atherton (2009) found that some start-ups used bootstrap finance through personal credit (personal loans and credit cards) to avoid loss of control (Atherton, 2009).

3.4.4 Venture capital

The importance of Venture Capital in entrepreneurial activity is increasingly appreciated (Hsu, 2010). Venture Capital plays an important role (Venturelli and Gualandri, 2012) for providing growth capital to cash-constrained young and innovative entrepreneurial firms (Hopp, 2010; Colombo and Grilli, 2010) during the initial stages

of the firm's growth cycle stages (Mac an Bhaird and Lucey, 2011). Research on Irish firms shows high rate investment in early-stage by Venture Capital which is most widespread in firms aged less than ten years (Mac an Bhaird and Lucey, 2011), where the risk of failure is high (Venturelli and Gualandri, 2012; Fairchild, 2011). Externally-derived equity investment will be a source of finance for only a few new ventures (only 3 of 26 new venture) (Atherton, 2009) and in another study 7 % of firms (Mac an Bhaird and Lucey, 2011).

Research on external equity draws attention to analysing the effects of human capital of founders and access to venture capital (VC) on new technology-based firms (NTBFs) in Italy. The capabilities of NTBFs coincide with founders' skills for those firms that are not VC backed, once a NTBF obtains VC, the "coach" function is performed by VC investors. Moreover, the "scout" function is not the main task performed by VC investors (Colombo and Grilli, 2010). Therefore, VCs play a crucial role (Hopp, 2010) as it provides expertise in a series of areas (Venturelli and Gualandri, 2012) such as technological, financial, and managerial expertise to the funded entrepreneur (Hopp, 2010).

Real options perspective views the staging decision as a choice between investing and delaying funding (Li, 2008). Hsu (2010) finds that the VC tends to stage investments when the growth rate of the venture's market value is expected to be lower. Staging has certain benefits; being a less riskier activity as the VC can wait and see if the venture is worth more investment first before committing to further capital too soon, which can ease the agency problem of the entrepreneur (Hsu, 2010). This allows the staging decision to be reconsidered at each round of financing depending on factors such as competition and various sources of uncertainty such as exogenous market uncertainty (Li, 2008). However, staging and therefore delaying investment can also be a disadvantage. Delaying of the VCs investing could increase the cost of investing

subsequently, or lead the investment option in the following round expire or competitors develop other portfolio companies with similar growth prospects which may increase the opportunity cost of waiting (Li, 2008). It also may be more beneficial to invest now and obtain the option to invest subsequently to obtain more project specific information through investing (Li, 2008).

Research in Germany shows when products are far from commercialization and investors appear to have a greater risk behaviour of VCs syndication (teaming up with partner) (Hopp, 2010). Analysis in deal selection through syndication and following managerial advice can be important to bring into line managerial effort with the goals of the financing VCs (Hopp, 2010). Industry experience in general is associated with more syndication as by focusing on partnering decisions over time and rounds shows the importance of industry knowledge for the involvement of partners and especially for expansion of syndication networks to new partners (Hopp, 2010). Partners are important for industry knowledge as well as for the expansion of syndication networks to new partners (Hopp, 2010). Therefore, more experienced lead VCs can take advantage of previous expertise and further expand their network through syndication (Hopp, 2010).

Sahaym et al. (2010) finds that favourable conditions for the use of investments of corporate funds directly in external start-up companies, known as Corporate Venture Capital, are created when environmental pressures and opportunities related to technological change and industry munificence exist. Industry R&D investments significantly increase the number of CVC investment in an industry by enhancing recognition and exploiting opportunities. Industries developed by prior R&D investment and positive encouragements in the form of technological change and environmental munificence show greater efforts towards generating innovations using corporate venture capital (Sahaym et al., 2010).

The resources and signals of entrepreneurs and University Spin Offs play a central role in accessing formal VC outside strong economic regions (Mueller et al., 2012). Research shows university Spin Offs not located in the South East of England or located in 'star' golden triangle universities have to send additional positive signals of quality relating to the resources of their USOs. The resource combination signals sent by USOs are favourably received by VC firms differ according to USO location context. USOs located outside the South East of England and 'star' golden triangle universities that signal the credible presence of habitual founders, had previously obtained PBEF, or with reputable management teams were more likely to obtain VC. (Mueller et al., 2012). Therefore, South East of England and Not Golden Triangle USOs that exhibited resource substitution behaviour increased their likelihood of obtaining formal VC. (Mueller et al., 2012).

3.4.5 Business Angels (informal VC)

Venture capital is not suitable for financing any type of project (Venturelli and Gualandri, 2012). Business angels cover this gap by providing an important alternative sources of funding for entrepreneurs (Fairchild, 2011) as VC are not willing to invest smaller amounts in projects still in the seed stage (Venturelli and Gualandri, 2012) and start-up finance for innovative projects (Fairchild, 2011). Angel investors are also less strongly interested in seed financing and in rescue deals but have strongest interest in early stage, start-ups and expansion projects (Harrison et al., 2010). They are particularly important for firms aged less than five years (17 per cent of capital structure) and lessen considerably in respondents with older age profiles (Mac an Bhaird and Lucey, 2011).

Angel-financing is also more dominant than venture capital in terms of the number of new firms receiving funding globally (Fairchild, 2011). Research shows that 9 per cent report sourcing finance from business angels and private investors (Mac an Bhaird and Lucey, 2011), and the value of financial investment (Fairchild, 2011) in a UK sample regarding the size of investment, with almost equal proportions in each of the investment size categories between £10k and £250k (Harrison et al., 2010).

Fairchild´s (2011) game-theoretic model shows that venture capitalist to have higher value-creating abilities with entrepreneur; and, venture capitalists are completely self-interested, while the relationship between entrepreneur and angel is a closer, more empathetic and trusting one which encourages the entrepreneur to choose the angel, as it reduces the double-sided moral hazard problems (Fairchild, 2011).

Maxwell et al. (2011) found that angel investors use a short cut decision making exploratory to rejecting an opportunity with a fatal flaw to reduce the available investment opportunities to a more manageable size. This may reject a good candidate simply for a low score on one attribute (of eight critical factors in the study: product adoption, product status, protect ability, customer engagement, route to market, market potential, relevant experience, or financial model). However, short cut decision making is not used in the final decision to fund an opportunity (Maxwell et al., 2011).

Harrison et al. (2010) found that business angel markets are usually local to have access of personal and localized networks which are used to identify potential investments and to reduce risk. Also, Harrison et al. (2010) argued that investors who prefer earlier stage deals and smaller sized deals will make local investments, while more frequent (active) investors and those involved in syndicated or lead investor investments will be more likely to be longer distance.

Largely rural region with widely dispersed settlements are more likely to make a local investment while in highly urbanized areas are more likely to make a long-distance investment. Investors who are brought in to investments by a lead investor are less likely to invest locally (positively statistically significant at the 5% level). Therefore, investors who invest as part of a syndicate are more likely to invest locally. Larger investments will be long distance investments (only a significant minority). Research on data from 373 investments made by 109 UK business angels show that, 41% of the investments were in technology based firms, 54% of respondents never invest through a syndicate, 13% always or usually do so, 24% of investors are brought in to at least some of their investments by a lead investor, and 46 % are never brought in by a lead investor (Harrison et al., 2010).

3.4.6 IPO and Private Placements

Growing private companies can be financed either by private placements (non public offering, small number of chosen private investors) or by IPOs (initial public offerings) which is another way to access equity finance for SMEs (Carpentier et el., 2008). As the firm outgrows the expertise and resources of the entrepreneur an IPO becomes unavoidable and future investors will evaluate the firm based on their resources, track record, and the quality of their senior leadership (Chahine et al., 2009). IPO would benefit from having a board of directors that with inside and outside directors whose prestige supplement that of their founders, which can significantly reduce the IPO discount as it signals competence to potential investors.

Carpentier et el. (2008) analysed issue activity before and after 2001 when the Canadian province of Ontario modified the private placement regulations to facilitate access to equity financing by SMEs in order to evaluate to what extent securities

regulation constrain financing of businesses growth. An increase in the number of issues, but only a limited increase in the total amount raised on the private market after the reform was found. The average size of the issues has therefore decreased. Some of the changes may be related to current events, such as the technology bubble and the strong increase in the natural resources prices. When various factors that influence issue activity are controlled, a statistically significant effect only on the number of issues by closed corporations is observed. These results maybe show that the reform made the issue of small amounts of money by private companies easier, but do not show that securities regulation is a major constraint to small business finance and therefore regulation had not prevented numerous companies from financing profitable projects. Furthermore, the importance of external equity financing for small firms seems to be overstated despite of the positive effect of an increased frequency of smaller issues.

3.4.7 Lease finance

Mac an Bhaird and Lucey's (2011) study shows that 30 per cent use lease finance and it contains a rather small proportion of capital structures (averaging 6 % for the total sample). Regarding age, lease finance differs across age groups it covers 3 % of capital structure for firms that are less than ten years old. Despite moral hazard should not apply as machinery and equipment typically remains with the lesser risk, only a small amount of lease finance of younger firms in the study, however 50 % of firms in the two youngest age categories are in the computer software development and services sector, where lease finance is not very much used (Mac an Bhaird and Lucey, 2011).

3.4.8 Bank finance

SMEs debt financing is an important source of capital (Chua et al., 2011) and vital for the development of these enterprises especially in those countries with bank-oriented financial systems (Angela, 2011), such as Sweden (Berggren and Silver, 2010), Netherlands (Degryse et al., 2012), Italy (La Rocca et al. 2011). In bank-orientated countries banks are the major financiers for SMEs (Degryse et al., 2012) and the private equity market is poorly developed (La Rocca et al., 2011) in comparison to the UK and the USA (Degryse et al., 2012). Research from Sweden, for example, shows that the use of bank loans is widespread (almost three of four firms have bank loans) and therefore, seen as the most important type of financier in all regional cluster in Sweden especially with firms in smaller municipalities (Berggren and Silver, 2010).

3.5 Overcoming information asymmetries

In order to overcome the aforementioned difficulties a limited number of possibilities are available and most attention in the academic and policy literature has centred upon collateral, and signalling,

3.5.1 Collateral

Debt financing is difficult to obtain for new ventures due to agency problems and asymmetric information between borrowers and lenders (Chua et al., 2011). Therefore, collateral is an important tool to overcome informational problems (Degryse et al., 2012) and may lessen the risk of moral hazard as collateral can take hold of by the bank if the borrower defaults (Blumberg and Letterie, 2008). Dutch research shows strong support for the positive relationship between total debt and collateral (Degryse et al., 2012).

Collateral is particularly necessary for high-technology entrepreneurs whose firm assets are predominantly intangible ideas, copyrights, licenses, or patents and not beneficial to collateral-based lending which leads to additional asymmetrical informational problems in assessing the risk of firm projects bankers and the capital markets (Elston and Audretsch, 2011). However, banks are able to employ these assets in their lending decisions as research shows that intangible assets (10.08 percentage point increase in the ratio of total debt to assets) and net debtors have a positive effect on the long-term debt (Degryse et al., 2012). High growth firms and firms with fewer tangible assets have a lower debt ratio (Heyman et al., 2008).

Some business owners are discouraged to apply for a loan despite having collateral. Sena et al. (2012) found that women´s lack of collateral does not seem to be the main factor that discourages them from seeking finance. It is assumed that, business starters apply only if they expect that their loan application has chances to be successful. High probability of loan rejection discourages individuals to apply (Blumberg and Letterie, 2008).

3.5.2 Signalling in bank finance

The bank can assess the loan quality by looking for signals regarding the future prospects for the business from writing a business plan that provides information on the business trustworthiness and reliability and hiring an accountant seem to convince banks that they are more likely to lend credit (Blumberg and Letterie, 2008). Loan officers also look for either technical skill related to the business or management skill (Sena et al., 2012).

There is also evidence that banks value commitments more than signals (Blumberg and Letterie, 2008). Positive relationships with financial provider have a

habit to lead to further funding as founders were able to demonstrate creditworthiness based on transactions earlier in the venture creation process and ability to repay debt (Atherton, 2009). The financial structure of small privately held firms in Belgium tends to match the maturity of debt with the maturity of their assets (Heyman et al., 2008). Matching founder equity against a loan or credit facility helped overcome perceived reluctance by finance providers to lend to new venture as founders equity against their own debt as a ´signalling effect´ showing commitment of the founder to the new venture (Atherton, 2009). As it seems banks take earning capacities into account, but reduce the risk of uncertain future income by rationing credit (Blumberg and Letterie, 2008).

3.5.3 Requirement of debt

Atherton (2009) found that contrary to the pecking order theory, the number of long-term debt transactions (20) is more common than short-term credit (14) in the UK sample and out of 26 new ventures only 8 demonstrated financing patterns that definitively supported a pecking order theory. Also in a bank-based system such as Netherlands, a SMEs sample shows a relatively large amount of long-term debt which is more risky for lenders, while for the firm, the interest rates of long-term debt are lower than those on short-term loans (Degryse et al., 2012).

Those firms with low credit risk can borrow on the long term, whereas firms with high credit risk are seemingly forced to borrow on the short term (Heyman et al., 2008). Atherton's (2009) research shows that as debt will be limited or insufficient in many cases (14 out of 26) additional funding was acquired, six out of those acquired multiple rounds of debt financing and (5/26) was the leveraging of external debt by matching founder equity against a loan or credit facility (Atherton, 2009). Degryse et al.'s (2012) research shows that debt levels are lower if a firm makes profits (negatively

related to the total debt ratio by 1.3 percentage points), but only significant for short term debt.

3.6 Business and Entrepreneur characteristics investigated

3.6.1 Gender

A study on financial bootstrapping show that 75% were male and only one quarter female (Winborg, 2009). As regards further characteristics of the founder, the analysis shows no significant differences between the 'Cost-reducing', 'Capital-constrained' and 'Risk-reducing' bootstrappers groups in relation to gender (Winborg, 2009). Furthermore, women are less keen on approaching external funders than men and are less likely to enter self-employment and also, women that approach external funders are also more likely to enter self-employment (Sena et al., 2012). Nevertheless, men who do not approach external funders may still be more likely to enter self-employment than women although differences between two mean probabilities is not particularly large (Sena et al., 2012).

As for the social class variables, the marginal effects suggest that women from the middle and the working (both skilled and not) classes are less likely to enter self-employment if they seek external funds than men from other social classes (Sena et al., 2012). For instance single and nonwhite women are also less likely to enter self-employment. However, women with a vocational qualification are less likely to enter self-employment than men without a vocational qualification if they try to approach external funders (Sena et al., 2012). Focusing on the marginal effects of factors such as education, marital status, house ownership, social class etc. show that men's likelihood of approaching external funders is the same as for women (independently of the size of the marginal effects) (Sena et al., 2012).

Further gender differences were found regarding borrowing cost. A study has shown that the U.S. debt market penalized female-owned small firms in terms of borrowing cost for being SPs significantly harder than they did male-owned small firms for choosing the particular legal form of organization (Wu and Chua, 2012). Small Business Borrowing Cost was on average in the sample 5.745%. Female-owned small firms average cost was 6.176% while male-owned firms was 5.697% and significant on a univariate basis at the 5% level (Wu and Chua, 2012). Lenders charge female sole proprietorships an average of 73 basis points higher (be significant at the 5% level) than male sole proprietorships. When the interaction between variables Female and sole proprietor is included, its statistically significant (1% level) coefficient shows that female-owned Sole Proprietorships tend to pay 107.2 basis points higher than male non-SPs. Although the two groups have the same average credit score, female owned businesses are younger and smaller, have shorter relationships with lenders, and farther away from the bank branch and more of them are sole proprietorships (Wu and Chua, 2012).

3.6.2 Parents (a family business background)

The results also show that family governance and family management have a direct influence on the amount of new venture debt financing obtained (Chua et al., 2011). Family governance is significant and positively related to the probability of a new venture obtaining a third party loan guarantee while family ownership, family management, and trans generational succession intentions are not related with a new venture's ability to obtain a third party guarantee (Chua et al., 2011).

Blumberg and Letterie (2008) found that a family business background such as parental self-employment do not affect the probability of denial, but Sena et al. (2012)

found that a self-employed father increases the likelihood of becoming self-employed (4.6% points) for women if they have not sought external funding whereas for a woman who has approached external funders, the increase is only 3.8% points. Women whose father has been self-employed may take advantage of some entrepreneurial network that may help the move into self-employment, no matter of their willingness to approach external funders.

3.6.3 Degree

New businesses that use financial bootstrapping show that the majority (almost 75%) have a university degree (at least four years of study), but no significant differences between the 'Cost-reducing', 'Capital-constrained', 'Risk-reducing' bootstrappers groups in terms of educational level of the founder (Winborg, 2009). Regarding bank lending, higher education significantly reduces credit application, though it does not affect a bank's lending decision (Blumberg and Letterie, 2008).

There have been differences found between men and women in relation to education. One study shows that female small business owners had significantly (1% level) lower levels of education (Wu and Chua, 2012). Women with a degree are less likely to enter self-employment even if they are more likely to approach external funders (Sena et al., 2012). Both tertiary and secondary education appears to discourage individuals from getting into self-employment (Sena et al., 2012). This could be explained by the fact that the opportunity cost of getting into self-employment may be larger for individuals with an academic education (Sena et al., 2012).

3.6.4 Teams (multiple equity partners)

New businesses using financial bootstrapping methods show that around 50% of them have taken in new owners or undergone a change of ownership (Winborg, 2009). Entrepreneurs who own a large part of the firm shares may directly control the business, which has an important influence on debt as ownership being highly concentrated shows higher commitment to the firm and a greater unwillingness to lose control to banks through bankruptcy (La Rocca et al., 2011).

However, it also has been argued that single ownership decreases the likelihood of loan application (Blumberg and Letterie, 2008) as being a sole proprietorship may also serve as a signal of lower business sophistication, smaller size, or limited resources available (Wu and Chua, 2012) and single owners are more credit rationed as banks less likely to fully recollect the debt from a single owner in case of bankruptcy than a multiple owner.

Therefore, multiple-ownership also may signal a higher degree of credibility and has been found to be the one that obtain bank finance easier (Blumberg and Letterie, 2008). Teams that are able can finance themselves through external finance can achieve more employment growth early in the venture development, e.g. help financing the expansion of a NTBF's expensive staff (Brinckmann et al., 2009).

3.6.5 Managerial Capability

Management compatibility is an important factor for venture growth as raising financial capital by making business models is vital and then the acquired finance needs to be used efficiently by conducting internal and external accounting, while obeying legal obligations (Brinckmann et al., 2009). Strategic financial management competence

may have limitations of detailed in environments of high uncertainty and therefore, there is limited value of extensive planning in dynamic environment (Brinckmann et al., 2009).

Managerial capability shows less to be found in cost-reducing bootstrapping (on average less than six months') from the sector, whereas those using risk reducing bootstrappers (almost three years') and capital-constrained bootstrappers (almost two years') techniques have more managerial experience (Winborg, 2009). Blumberg and Letterie (2008) analysis suggests that banks value if a potential business founder has gained similar experience in a paid job to their start up, but don't value previous self-employment and leadership experience. Enterprise training or work experience undertaken at school will not lessen individuals perceive financial barriers to business start-up (Roper and Scott, 2009). Furthermore, signalling the competence of the IPO firm's governance system to potential investors is important as research shows a negative and significant association between under-pricing and board experience (p= 10%) (Chahine et al., 2009).

3.6.6 Entrepreneurial Capability

Starting a firm requires many of skills, and prior firm-founding experience may help an entrepreneur obtain and improve such skills (Zhang, 2011). Surprisingly, respondents with previous entrepreneurial experience are less likely to become self-employed (Sena et al., 2012). Signals related to having gained experience in a job that are similar to the task performed once being self-employed have a positive effect on banks decision while leadership, and having self-employed parents, which are directly related to specific human capital of entrepreneurial skills, do not have an effect (Blumberg and Letterie, 2008). Established connections to the VC world are most

advantageous at the very early stage, whereas in later rounds better entrepreneurial skills become also important (Zhang, 2011).

3.6.7 Risk

In one study, those being risk adverse are less likely to enter into self-employment (Sena et al., 2012). In another, risk attitudes, however, do not appear to have a strong role to play in the entry decision for US high technology overall and only showed a significance when wealth was included but access to capital was excluded from the entry model (Elston and Audretsch, 2011). Research on new business owners show that risk-reducing bootstrappers have started more businesses than the other founders 2.5 versus 1.5 on average (cost-reducing and capital constraint). Those entrepreneurs using risk-reducing bootstrapping techniques are relatively experienced in comparison to cost-reducing bootstrappers that are not (Winborg, 2009). Besides bootstrapping, top management team may use strategic financial planner to identify financial risks by technology projects and have to consider the relationship between financial risks and expected financial returns when the founding team selecting technology projects (Brinckmann et al., 2009).

Risk plays also an important role on the strategy used by VC. Younger and more risky companies need a higher level of VC syndication (Hopp, 2010). A lower capital burden in the start-up stage might point to the generally more noticeable risk and lower a VC's incentive to syndicate. Lead VCs benefit more from inviting partners in the early stage where ventures are still very risky and capital burdens are stronger (Hopp, 2010). The VC can also lower risk using staging her investment (Hsu, 2010). Hsu (2010) found that the effect of staging is likely to be greater than the cost of staging and the venture's riskiness is more restricted and the agency problem can be lessened. Also research on a

founder-involved IPOs suggests that riskier firms tend to be more underpriced and shows that the regression coefficients for the high-tech dummy are positive and significant (p= 5%), (Chahine et al., 2009).

3.6.8 Business ownership experience

Although there has been progress in understanding credit rationing there are still substantial knowledge gaps relating to the profiles of entrepreneurs (Storey, 2004; Biggs et a., 2002; Robson et al., 2013). Financial institutions and enterprise agencies may utilise entrepreneurial experience as a way to help with screening applications for finance (Westhead and Wright, 1999; Macmillan et al., 1985). Whilst there has been previous research on the state of habitual entrepreneurship (Ucbasaran et al., 2008; 2010) finance has remained less researched, in large part because of the absence of large data sets.

Previous research has found that entrepreneurs use their prior business ownership experience to successfully obtain external finance resources from sources such as banks and venture capitalists, and that the finance is used for subsequent ventures (Wright et al., 1997a, b). Because of their longer track record and a greater level of resources in their current businesses this may help to explain why portfolio entrepreneurs possess a higher likelihood of securing finance and avoiding being credit rationed or credit constrained (Wright et al., 1997a, b). Moreover, other elements and facets of their backgrounds and prior business experience, as well as level of education, and reputation may contribute towards habitual entrepreneurs' business performance (Rauch and Frese, 2000) and access to external credit (Westhead et al., 2003b; Westhead et al., 2005b)

3.6.9 Information

Prior experience and knowledge of the founders of new venture, relationship capital (networks and existing relationships) affected the kind of finance and the amount of capital the new venture was able to receive (Atherton, 2009). In the case regarding Venture Capital, their information is based on more general and past investment experience, and will be moderate when compared with the expectation of the entrepreneur, who is typically more optimistic. As the VC and the entrepreneur share more information and the VC's guess will become closer to entrepreneur's true expectation (Hsu, 2010). Mutual social connections link information transfer between investors and the entrepreneur may also serve as an informal monitoring group that strengthen VC investors' confidence in the entrepreneur (Zhang, 2011). For example, if the entrepreneur does anything that have a negative affects the venture capitalists' financial return, trust of other people within the same social network may be lost (Zhang, 2011).

Furthermore, new VC partners joining an incumbent syndicate (for a given venture) hoping to broaden the scope of investing through an increased likelihood of obtaining new information (Hopp, 2010). Regarding Business Angels, it is strongly suggests that the economics of the investment process and the nature of information flow on deal availability encourage investors with a preference for small investments to invest locally (Harrison et al., 2010). Furthermore, experienced BA investors are assumed to manage higher information costs (information asymmetries, uncertainty, transaction costs of maintaining relationships) of non-local investments better (Harrison et al., 2010).

3.6.10 Business Age

Capital structures show distinct changes across age groups in sources of finance by firms over time (Mac an Bhaird and Lucey, 2011). Regarding age, obtaining debt finance is not significant (Chua et al., 2011), no significant effect on credit applications and does not affect credit rationing (Blumberg and Letterie, 2008). An Bhaird and Lucey (2011) shows that an increasing use of short-term debt as age profiles increase, while long-term debt in age categories is negatively related with age (Heyman et al. 2008). While in one study the lowest indebtedness ratio is found in young firms and micro-enterprises (Venturelli and Gualandri, 2012), in another the financial debt ratio of young firms was almost 4% percentage points higher than that of old firms. Young firms median financial debt was 0.51, whereas that of old firms was 0.44 while the middle-aged group is in between (La Rocca et al., 2011).

The business age also determines the differences in equity requirement per unit of marginal sales (Venturelli and Gualandri, 2012). Regarding VC younger risky companies need a higher level of VC syndication, whereas when the investment is provided to an older firm, VCs syndicate is used to a lesser extent by age (a significant negative effect at the 1% and 10% level, respectively) (Hopp, 2010). A high rate is invested by Irish venture capitalists in early-stage firms aged between five to nine years (16%) and ten to 14 years (10%) with over 70 per cent between five and 15-years-old, which suggests that venture capitalists invest in companies with proven technology. The more VC rounds the more money is brought in and older firms raise a larger amount of VC than younger ones (both significant and positive coefficient) (Mac an Bhaird and Lucey, 2011). Furthermore, founder-involved IPOs show older firms to have more likely prestigious directors whereas inside directors' prestige is lower in hi-tech firms. (Chahine et al., 2009)

3.6.11 Size

Small firms face financial barriers due to asymmetric information problems and control considerations, young, and middle-aged firms are likely to have more debt (La Rocca et al., 2011). Debt is especially so for micro and small enterprises and when company's size and age increase, the extent of its use of current debt decreases (Venturelli and Gualandri, 2012). Research of small, privately held Belgian firms finds that leverage is also negatively related to size (again statistically significant at the 1% level) (Heyman et al., 2008).

Others find a positive relationship between debt and size who argue that small firms are using a much smaller amount of bank financing for new investments than with large firms (International Finance Corporation 2010, cited Angela, 2011). Larger firms tend to have a higher debt ratio and a shorter debt maturity (Heyman et al., 2008). The positive relationship between size and debt, indicated that the larger the firm the higher the leverage ratio (La Rocca et al. 2011). Size is also significant and positive influence obtaining debt financing and size (pb0.01) are positively associated with loan guarantees and reduces default risk (Chua et al., 2011). Research on a sample of founder-involved IPOs shows Underpricing is negatively related to firm size (p= 10%) (Chahine et al., 2009).

Female (majority) -owned small firm are on average smaller than the average male- (majority) owned firm, both in total assets and number of employees (female-owned 34 employees, male-owned 56 employees, average 55 workers) (Wu and Chua, 2012). Length of relationship as indicator differences between large firm and small firm debt financing shows that female firms relationships with lenders (95.7 months), in comparison with the male ones (113.3 months) are significantly shorter at the 5% level, average relationship was 112.9 months (Wu and Chua, 2012)

3.6.12 Sector

Degryse et al. (2012) suggest that pecking-order theory is followed by sectors such as manufacturing, construction, wholesale trade, retail trade food, retail trade non-food, transport, services whereas the trade-off theory dominates for the catering and leisure sector. However, intra industry differences make it problematic to specify age categories for each developmental stage (Mac an Bhaird and Lucey, 2011). The majority using financial bootstrapping at the start-up phase are found in one research to be active in the service sector and are limited companies. Cost reducing bootstrappers include fewer businesses active in service than in the capital-constrained bootstrappers and risk-reducing bootstrappers group even though not statistically significant (Winborg, 2009).

The retail sector shows a significant positive influence on obtaining debt financing and the relationship is stable as additional variables are entered which may reflect the potentially high levels of inventory that retailers could assign as collateral (Chua et al., 2011). The effect of profitability on leverage is particularly negative in sectors such as the wholesale trade, retail trade food and nonfood, and transport suggesting that the Pecking Order Theory is strongly present in these sectors (Degryse et al., 2012). Furthermore, Substantial variance across industries suggests that the value of Corporate Venture Capital depends on industry context and environment and therefore, industry munificence significantly strengthens the positive influence of R&D investment on CVC activity (Sahaym et al., 2010).

Dutch research shows that all industries (construction, wholesale trade, retail trade food, retail trade nonfood, catering and leisure, transport, services) have different capital structures compared with manufacturing (all on a significant level) which follows the pecking order theory regarding total debt, long-term debt, as well as short-

term debt (Degryse et al., 2012). Manufacturing ventures (pb0.05) are positively associated with loan guarantees as they have facilities, equipment, and inventory that can be sold in case of business failure (Chua et al., 2011). Female majority-owned small firms are less likely to be in manufacturing (Wu and Chua, 2012). Dutch research shows that the construction sector shows the lowest total debt ratio when compared to other sectors such as wholesale trade, retail trade food, retail trade non-food, catering and leisure, transport, services and manufacturing (Degryse et al., 2012).

3.7 Qualitative research in the field of access to finance

In the previous sections the literature which has been used is predominantly quantitative in nature. In the field of access to finance most research studies are conducted using quantitative research methods, however those studies relating to capital structures often in relation to the Pecking order theory or relationships to those providing or receiving capital resources such as financial institutions in the field of decision making process of the entrepreneur or of the loan officer use qualitative research methodologies on its own or combination with quantitative research methods to obtain a more in-depth analysis.

Those examine capital structure using the Pecking Order Theory found deviations from the Theory. Atherton (2009) used the Pecking order theory for the analysis of 26 capital structure case studies only 8 followed the Pecking Order Theory to examine capital structures of SMEs in his research study. Founders were interviewed to provide a chronological order of what finance they used. He pointed out that comprehensive information about the capital resource structures of new firms is likely to be difficult to obtain without extensive engagement with business start-ups and their founders.

Paul, et.al (2007) research investigates whether the pecking order hypothesis follow the capital finance preferences of start-up businesses. The study uses in-depth interviews with 20 Scotland-based entrepreneurs and found that consistent with the POH entrepreneurs in start-ups phase use their internal sources first. However in most cases a bridged pecking order applies in that the businesses move from self-funding to external equity, instead of bank finance. Entrepreneurs consider debt to be a personal liability and therefore seek out equity investment to obtain added value above the finance invested as a well-chosen investor can add business skills and commercial contacts and access to relevant networks.

Hogan and Hutson (2004) examine the capital structure of new technology-based firms using a sample of 117 Irish software companies by questioning CEOs using a mail and addressed survey on their perceptions and opinions on several financing issues. The result shows that internal funds are the most important source of funding in new technology-based firms, and contradiction with the pecking order hypothesis, equity financing is the prime source of external finance. The usage of inside and outside finance for the sample firms is near to 50/50, but the inside finance for startup firms (less than 2 years old) is at 73 percent. Debt finance in the form of bank loans comprises a 4 percent of total financing, or 8 percent of outside finance. The majority of outside equity consist participation from venture capitalists and angel investors.

Jonsson, (2008) study focuses on the relationship between the SMEs and the financier, which influences the firm's financial decision-making process. The study is conducted as a longitudinal, single case study of a fashion firm. The firm prefers equity to debt financing, therefore a deviation from the pecking order theory of finance. The findings suggest that identity field embeddedness is relevant in the firm's financial decision-making process as it facilitates the formation of embedded relationships between the SME and the financier. The idea of belonging to the same identity field as

the supplier of equity finance encourages the business to prefer equity financing to bank financing. Not only cost of capital or loss of control may affect the firm's financial decision making and influence the SME towards equity rather than debt financing. The perceived similarity of identity fields played an important role for the establishment of embedded relationships between the SME and the financier, which influenced the firm's financial decision making.

Howorth (2001) conducting thirteen case studies using information on a wide range of firm, market and financial characteristics; financial data on each firm obtained from Dun and Bradstreet; company reports, business plans and brochure provided at the time of the interview. In-depths interviews with the managing director of each firm were conducted and discussions on key points with other directors or employees were conducted where necessary. This enables an in depths analysis of complex interrelationships between demand-side factors and supply conditions to study the pecking order of demand for finance within the UK small firms.

Deakins et. al (2008) conducted an in-depth study on demand and supply side issues relating to access to bank finance by 51 Scottish SMEs focusing on whether there is still market failure associated with good, bankable business cases from SMEs that do not receive finance using verbal protocol analysis to give insights into the decision-making of bank managers in the processing of proposals from SMEs and whether informational effects can lead to market failure in the provision of debt finance, the circumstances in which sound propositions are turned down and whether such circumstances can be prevented.

There is a particular literature which focuses on gender and bank finance for SMEs using qualitative research methods. Derera et.al (2014) study focuses on gender-specific barriers to raising start-up capital faced by women entrepreneurs in the small

business sector in Pietermaritzburg, KwaZulu-Natal, South Africa. The study uses mixed methods approach that includes semi-structured interviews with experts and a survey of women entrepreneurs. It focuses on obtaining insights from experts in the field of entrepreneurship through analysing questionnaire responses, and following up by using semi-structured interviews.

The results demonstrate women entrepreneur's difficulties in venturing into non-traditional industries in South Africa. The majority of women entrepreneurs use a mixture of personal savings and other sources of funding (family savings, bank loans and loans from family) to establish their small businesses which are often insufficient for them to venture into non-traditional sectors. Therefore, women entrepreneurs start small and then expanding when there is the possibility or make sacrifices by using their personal savings or selling personal property. Women entrepreneurs' discrimination roots in bank lending models, due to a scoring system due to collateral, past track record, credit history and formal work experience (Derera et al., 2014).

Mordi et al. (2010) examine the challenges female entrepreneurs face in the development of their business in Nigeria using survey data from 274 female entrepreneurs currently involved in their businesses in Lagos, Ogun and Oyo within Nigeria. The results indicate that female entrepreneurs are generally confident and resourceful and that they enjoy the challenge of entrepreneurial activity. As in the West, they experience difficulties relating to family commitments and access to finance as well as problems gaining acceptance and accessing networks.

Constantinidis et al.'s (2006) quantitative and qualitative study, uses descriptive statistics and interview analysis, examines the relationship between financing patterns and barriers and gender from the woman entrepreneur's viewpoint. While women-owned ventures have particular financing patterns and encounter barriers in their access

to financing. Carter (2007) using experimental and qualitative methodologies for the study which explores the role of gender in bank lending decisions, focusing on the criteria and processes used by male and female loan officers to analyze supply-side discrimination or demand-side debt and risk aversion. Results reveal similarities on how to assess male and female applicants but show modest differences in the emphasis given to certain criteria by male and female lending officers. The processes used by male and female lending officers to negotiate loan applications revealed the greatest differences.

Pellegrino et al. (1982) examined whether women really face special obstacles when establishing a small business with a case study in form of descriptive research to identify the formative and operational problems encountered by female entrepreneurs. Semi-structured interviews featuring both open- and closed-ended questions on an interview schedule were used as the primary data collection method. The use of semi-structured interviews, aided by non-directive examining, allowed the in-depth study of perceived formative and operational problems of 138 female entrepreneurs operating small retail and service firms. An interview schedule, consisting of structured open-and closed-ended questions was divided into three parts: formative information (contained closed –ended questions), operational information (closed-ended questions) and summary data (eight open-ended questions to elicit in-depth responses pertaining to formative and operational problems) (Pelegrino et al.,1982).

Rouse and Jayawarna (2006) examines whether enterprise programmes are overcoming the finance gap faced by their disadvantaged participants. The study uses a postal and e-survey of participants on a leading UK enterprise programme, reporting on 472 respondents. Three capital structure variables (personal investment, external private investment and grants) are used to analyse different funding in NES businesses. These results are compared with published data about use of different types of finance in UK start-ups. Descriptive statistics of perceptions of under-capitalisation, and needs for

additional funding, are also presented. The findings show that NES Scholars make significantly lower start-up investment than is typical in UK small businesses, especially regarding personal finance. Finance provided by the programme is important but does not compensate for poor access to personal and loan investment. Therefore, almost half of the Scholars were under-capitalised.

Kuzilwa (2005) examines the role of credit in entrepreneurial activities. His methodology is a combination between case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings show that owners of enterprises that received business training and extension advice improved performance. Also many of the problems faced by the entrepreneurs are not related to financing, but rather arise as a result of macroeconomic and institutional constraints. Using combined qualitative case studies and sample survey to assess the extent to which credit determined successful entrepreneurial activities and adopted a simple model that showed how predisposing factors, triggering factors and enhancing factors like credit lead to a successful entrepreneurial activity. Credit has been instrumental to the success of the enterprise. Start-ups seemed to have been funded from own sources while credit was used mainly for business expansion. It is argue that demand for credit is actually increasing with firm growth and firm size. Inadequate credit may hinder or postpone entrepreneurial activities.

Hussain and Matlay (2007) study the financing preferences, access to both formal and informal finance as well as the use of personal funding networks of owners in small ethnic minority businesses in the UK. The results are compared to a control group of white small business owners. The research methodology uses in-depth, face-to-face interviews with an ethnic minority small business owners sample and a matched white participants control sample in the West Midlands region of the UK. The results

show that family and close associate networks play a substantial role for the support of both ethnic minority and white owners. All participants required loans from banks and other financial institutions, at all business stages. For the ethnic minority owners, the importance of financial institutions weakened over the years. While, in the control sample, institutional borrowing increased substantially. Ethnic minority owners showed finance easier to use and allow them to stay in full control of their businesses. For the majority of ethnic minority financial institutions become less important over the five years, especially for those with fewer turnovers.

Smallbone, et al. (2003) presents findings from a large-scale study of access to finance and business support by ethnic minority businesses (EMBs) in the UK. Two large-scale telephone surveys of EMB owners were used, a control group of 'white' owned firms and then case studies of new starts and established businesses that involved a longitudinal element. In-depth interviews with bankers, concerned with processing loan applications from EMBs. Interviews with business support providers, who deal with EMB clients. The EMBs were drawn from the five largest ethnic minority groups in the UK, namely African/Caribbean, Indian, Pakistani, Bangladeshi and Chinese. The results show more variation between ethnic minority groups than between EMBs (as a group) and white-owned firms; with African/Caribbean owned businesses (ACBs) shown to be the most disadvantaged by showing them to have been less successful in accessing bank loans than either white or other ethnic minority groups and to have a higher tendency to use non-bank formal sources of start-up finance. Although some of these difficulties are related to certain types of business activity in which ACBs are concentrated, sector is not a main influence. ACBs, and/or sectors in which ACBs exist, seem to be a good targeting priority in any new finance initiatives that are taken. As a group, EMBs do not appear disadvantaged in terms of accessing start-up capital from banks and other formal sources, compared with a matched sample of white owned

businesses. Analysis of many key variables shows more variation between ethnic minority groups, than between EMBs (as a group) and white-owned firms.

Ritchie and Lam (2006) study evaluates current research and policy evidence from a major conference against the seven strategic themes in the UK's Small Business Service policy publication. The methodology to underpin research and provide guidance for the future direction of research uses evidence from an analysis of the research methods employed of 180 papers and research presentations including expert opinions and perspectives from the 28th Annual Institute of Small Business and Entrepreneurship Conference in November 2005 found that Rapid growth of volume and diversity in small business and entrepreneurship research activity and to share findings and experiences. More policy makers, advisors and practitioners working with researchers could improve the effectiveness of research in relation of policy development and best practice.

Underwood (2009) examines the Library Business Corners (LBC) service for entrepreneurs in the Western Cape of South Africa that uses public libraries as a channel for information and expertise. In order to develop an effective service for entrepreneurs is depending on the quality of staff and their contacts. The opportunities and problems of the LBCs' approach are a response to the emergence of similar services is shown. The ''balanced score card'' model explores the vision of the present services and the influence of information literacy. The findings show that financial support for LBC work is rare and unlikely to rise. The challenge is to generate a maintainable service by the LBC team using the existing or reduced amount of capital.

Swann (2008) quotes J.S Mill (1859/1929, p.24) regarding the importance of qualitative research and states that the only possible way to gain knowledge, "is by hearing what can be said about something by persons of every variability of opinion and

study all approaches in which it can be looked at by every character of mind" and therefore field research is such an important contribution factor to understanding the phenomenon of discouragement in relation of strategic choices of capital structures.

Case studies are appropriate in this investigation as it focuses on a set of issues in the 24 single organizations and factors involving an in-depth study will be identified (Jankowicz, 2005) focusing only on a particular part of the organisation (Noor, 2008) which is in this case it's discouragement and non-discouragement within the financial structure. In this investigation the past and present of the firm financial structure will be focused on while incorporating discouragement of borrowers to the model.

Case studies also focus on how and why things happen and allow an investigation of contextual realities such as operational links needing to be traced over time, rather than simple frequencies or incidence (Yin, 2009). In other words, the project is not only to focus on whether discouragement does or doesn't occur it also focuses on how discouragement fits within the overall capital structure. Therefore, the issue I am trying to identify is whether discouragement has a certain place in the capital structures of SMEs. Therefore the technique is used to analyse whether discouraged firms share similar characteristics of financial structures and pattern-matching of multiple-case studies are used to find comparative structures. If the patterns coincide, the case studies internal validity will be strengthen (Yin, 2009).

3.8 Propositions to be tested

The previous chapter presented the theories that have been developed to explain the capital structure of firms. The pecking order theory arguably presents the most coherent theory of capital structure, especially when applied to SMEs. This leads to the following proposition:

Proposition #P1 Entrepreneurs in Austria and the UK follow the Pecking Order Theory in the capital structuring of their firms.

There is a large body of research from Deniz Ucbasaran, Paul Westhead and Mike Wright which has performed research which has looked at the role of prior business ownership experience (See Ucbasran et al. 2008). The thrust of their research which has been only applied using quantitative methods is that the habitual entrepreneurs are better placed to utilise their resources and achieve more favourable outcomes in comparisons with their novice entrepreneur counterparts. The habitual entrepreneurs have often got access to resources from previous businesses which allows them to make use of more internal sources of finance. This leads the researcher to believe that being able to use more internal sources will also make the habitual entrepreneurs more likely to be dependent upon internal sources and less likely to make use of debt finance or equity finance.

Proposition #P2: Experienced entrepreneurs are more dependent upon internal sources of finance compared to novice entrepreneurs.

The previous chapter and also this chapter have presented evidence on the influence of a variety of firm and entrepreneur characteristics which are perceived to have relationships with capital structures and also access to finance. The evidence on the role of gender and access to finance suggests that women will be disadvantaged in their ability to access external finance. Applying the gender literature to the capital structuring decisions suggests that women will encounter more barriers and impediments than men when they move beyond internal finance and seek debt finance and equity finance. Given the possibility of women being impeded would suggest that

women are more likely than men to be dependent upon using external finance. This then leads to the following proposition.

Proposition #P3: Male entrepreneurs but not female entrepreneurs in Austria and the UK will follow the Pecking Order Theory in the capital structuring of their firms.

The literature on discouraged borrowing is a comparatively recent one, especially using the term 'discouraged'. The theoretical underpinnings of discouraged borrowing are not as well developed as the capital structures literature. Indeed, the term 'discouraged borrowers' was only used slightly more than a decade ago with the Kon and Storey (2003) paper. The Kon and Storey (2003) paper also endeavours to present a coherent model to help understand the possibility of situations where discouraged borrowers are encountered. The empirical literature associated with testing the discouraged borrowing literature is predominantly quantitative and is underdeveloped compared to the credit rationing debate (Freel et al. 2012). Kon and Storey (2003) suggest that discouraged borrowing will be a rare event which Freel et al. (2012) suggest that whilst a minority of entrepreneurs will encounter situations of being discouraged borrowers it will be more than a rare event. Whilst the previous research tends to be of a cross-sectional nature this has made analysis of the duration of being a discouraged borrower difficult to impossible to quantify. If an entrepreneur is a discouraged borrower then that time is a time to reflect upon their circumstances whilst simultaneously running their firms. Some entrepreneurs will continue to be pessimistic and the chip on their shoulder continues to make them unable to seek external finance. However, other entrepreneurs are believed to use a period of being a discouraged borrower to re-evaluate their predicament and their financial needs; and, this is then believed to result in them

seeking external finance. On balance it is expected that the period of being a discouraged borrower will only be a temporary and short lived phenomena.

Proposition #P4 Discouraged borrowing will be a temporary phenomenon for entrepreneurs in Austria and the UK.

The role of gender is downplayed by Freel et al. (2012) who in their regression model which applies a Heckman technique find that gender is not systematically related to the probability of being a discouraged borrower. In contrast the other more broad literature overviewed in this chapter leads the researcher to believe that women may find it harder than men to secure finance from external sources. In that situation women may then be less likely to seek external finance, especially debt finance, even in instances where thy have a viable idea and viable business. In other words, it is expected that gender will be systematically related to whether the entrepreneurs are discouraged borrowers. More formally the following proposition is presented.

Proposition #P5 Women are more likely than men in Austria and the UK to be discouraged borrowers.

3.9 Conclusion

This chapter has provided a literature review of previous research on access to finance. The chapter started with showing that there is a lack of consensus on providing a definition of credit rationing. This was followed with an overview of the financial patterns and those factors which have been found to be particularly important in helping to explain the use of sources of finance. Entrepreneurs are faced with a wide range of financial sources and these were outlined. Signalling theory and human capital theory

has been found to be used extensively in prior research and those theoretical structures will be utilised in the subsequent empirical chapters of the dissertation. This then lead to an overview of which characteristics of the businesses and entrepreneurs were related to a greater or less prevalence of credit rationing. It is clear that entrepreneurial experience has been comparatively under-researched compared to other aspects of experience. In particular, the nature of prior business closure experience – success, failure, both, or none, remains an area which has not been investigated in relation to access to finance and especially credit rationing.

Chapter 4

Research Methodology

4.1 Introduction

The previous chapters have served to provide the overall introduction of the thesis and a route map of what the reader will encounter in each of the chapters; followed by chapter which presents the theories of finance, and then a literature review on main empirical research associated with capital structures and access to finance. The second and third chapters also served to outline the main theories explored in this thesis, the pecking order theory, and then discouraged borrowing. This fourth chapter has the purpose of operationalising the research, and informing the reader about the research strategy followed and the methods which have been followed.

More specifically this chapter will present the research methodology which was used to gather the interview material from face-to-face interviews with 12 entrepreneurs in the UK and 13 entrepreneurs in Austria. The next section presents the epistemology considerations which were taken into account in the philosophical foundations of the thesis. Then a section covers the rationale for the choice of study to identify research gaps in the literature, and then followed by the time frame which draws attention to the economic situation during the data collection, the theoretical framework covers the main theories in the field and the operationalisation of the research methodology. Then, the research strategy is discussed, why those methods were chosen and then the data collection instruments are reviewed. In the measures section the dependent, independent and control variables will be discussing. Then it will be followed by the piloting and screening chapter followed by the questionnaire administration, reliability, validity and ethical considerations are discussed. This is then followed by a section covering the data

presentation and analysis, and the problems encountered during the fieldwork. Finally, the conclusion is presented.

4.2 Epistemology

Part of the contribution of a thesis is towards knowledge; but, it is important to note that knowledge is shaped by the lens which is applied by a researcher and especially the epistemological approach which a researcher employs throughout their doctoral studies. In other words, the epistemological approach followed by a researcher has a knock on effect on the methodology which a researcher follows; and that in turn influences their decision on the method which will be used to gather data – including quantitative versus qualitative; and, this also pervades into how the researcher approaches the analysis, interpretation and discussion of their research findings (Bryman and Bell, 2007). There are a large number of books and journal papers which have reflected upon epistemology and the implications for research. Cloke et al. (2004) suggest that at the risk of simplification it is possible to identify three types of knowledge. Their first type of knowledge believe is attributable to researchers' quest to establish a definitive and also a generalised statement of fact. Their second type of knowledge relates to endeavouring to establish value and meaning about the research topic under investigation. The third type of knowledge eminates from the personal experience of the researcher and what methods and approaches they have followed and employed in the past. Taken together the epistemological stance of a researcher will influence what researchers do in their research (Reynolds, 2011; Jack, 2002).

Research should be linked to theory, and in this thesis the second chapter articulated theories of finance; and the purpose of research is to see the extent to which patterns of outcomes and behaviour exists which is consistent or not consistent with

theories; or the theories need to be modified to reflect the observations of the researchers in their field work (Silverman, 2010); or if a grounded theory approach is followed the researcher seeks from the outset to build and develop their own theory. But the refining of existing theories or the building of entirely new theories needs to be done carefully; and the researcher needs to be careful upon the extent to which their findings and results and theories can be applied to other countries and scenarios beyond those examined by the researcher (Bryman, 2004). When this reflective element on how grand the findings are is then added to the three steps presented by Crotty (2003) produces an epistemological stance which whilst not perfect is robust. In other words, if the researcher has weighed up a deductive approach – which is when a theory is driven by a research process with some kind of inductive approach – which is the case if theory is derived or reached in at least part from the data then this will produce more balanced research. In the case of the entrepreneurship, small business and finance literatures it is rare for epistemological considerations to be presented however briefly. Instead, it tends to be the case that the vast majority of cases a positivist approach is followed.

This research follows a qualitative methodology and uses a structured set of questions but allows the researcher to explain questions if asked by the entrepreneurs. Furthermore, the researcher will probe with additional questions as appropriate. Whilst the methodology followed is a qualitative one it takes a post positivist approach to investigating the propositions stated at the last section of chapter 3. In essence with a post positivist approach the researcher takes the stance that a scientific approach is the approach to follow to contribute towards knowledge; but, and it is an important caveat, it is acknowledged that knowledge is transient in nature and it is also specific to a narrow range of locations. In other words, the researcher recognises that despite the best will in the world of the researcher it is impossible to be absolutely objective, and the

applicability of the findings towards knowledge need to be done so carefully (Reynolds, 2011).

4.3 Rationale for the choice of study

Previous research has focused upon a general comparisons between novice and habitual entrepreneurs as a simple binary relationship (Birley and Westhead, 1993; Kolvereid et al., 1993). As habitual entrepreneurs have been found to be more complex, therefore habitual entrepreneur were divide into portfolio and serial in contrast to novice entrepreneurs (Westhead and Wright, 1998a, 1999; Westhead et al., 1999).

The importance of understanding business closure of successful businesses as well as failed businesses in order to understand the processes that influences new venture survival and the welfare of customers, suppliers, employees, and especially for entrepreneurs (Gimeno et al., 1997). Closing a business is not necessarily rooted in failure or poor performance; it just means that a superior alternative has become available to the entrepreneur (Bates, 2005). Applying the concept to performance enables us to get a better understanding of entrepreneurial exit by considering both economic performance and non-performance reasons for exit (Gimeno et al., 1997).

As already mentioned, the common practice to see small-business closure as business failure is often incorrect (Bates, 2005). Business failure occurs when a fall in revenues and/or rise in expenses are of such extent that the firm becomes bankrupt and cannot attract new debt or equity funding; therefore, cannot carry on to operate under the current ownership and management (Shepherd et al., 2000; Shepherd et al., 2009). Looking solely at young firms that have closed down, findings indicate that successful owners broadly appear to enjoy attractive opportunities to pursue alternatives. Therefore, young firms are often shut down for reasons other than failure (Bates, 2005). Furthermore, according to U.S. Bureau of the Census survey data, business owners

often close down when they view their businesses as ‘‘successful’’ when they decide to close down (Bates, 2005). Owner-managers may experience a business failure but recover from it to be a successful owner-manager later as it is believed that more from our failures is learned than our successes (McGrath, 1999).

There is a recognition in the entrepreneurship and small business literature that the acquisition and transformation of entrepreneurial experience is an important part of the learning process (Kolb, 1984). Wright et al. (1997) examined those categories but did not reflect upon previous business closure experience, such as success, failure experience, both, or neither and despite qualitative research has been conducted by Cope (2011) and Ucbasaran et al. (2012; 2010) has looked at business closure experience in more depth, research in this field applied to finance is lacking.

Chakravarty and Scott (1999), Atienno (2001), and Blumberg and Letteriee (2008) emphasising that credit rationed are individuals that were partially or entirely rejected. Whilst Winters-Nelson and Temu (2005) put the emphasis upon a lack of finance from any source to undertake profitable investments. While the main definition of discouraged borrowers has emphasised that it is borrowers not applying for credit for fear that their application may be turned down (Fletschner, 2008; Levenson and Willand, 2000; Crook, 1999). Discouraged borrowers is an important field to research to provide more knowledge to firms considering bank finance, lenders and policy makers to improve access to finance (Freel et al., 2010; Levenson and Willard, 2000; Chandler, 2010; Freel and Robson, 2004) in particular female owned businesses (Madill et al., 2006).

The relationship between SMEs, gender, and access to finance is in general rather ambiguous (Sena et al., 2012). It has been argued that women’s borrowing patterns are different from those of men (Arenius and Autio, 2006; Carter et al., 2007)

due to women being discriminated against in credit markets (Coleman, 2000; Verheul and Thurik, 2001; Orser et al., 2006; Watson, 2006) are more risk- averse than men, unequally distributed in sectors, or self-selecting themselves that decreases application for external finance. Carter and Rosa (1998) found that intra-sectorial similarities demonstrate that gender is only one of a number of variables that may affect the financing process. Therefore, discouragement of female owned businesses will be further researched to improve access to finance to facilitate growth and survival of SMEs (Orser et al., 2006).

It is generally well accepted that small firms are an important engine of economic growth, and it is argued in the literature growth is encouraged by helping businesses to overcome one of their major challenges; that is access to finance (Chandler, 2010; Freel et al., 2010; Marlow and Patton, 2005). Drucker (1985, p.175-6) identifies the greatest threat to a new venture in the next stage of growth is inadequate finance (Sena et al., 2012) and lack of right financial policies. Therefore, access and adequate financial resources are an important aspect of business formation (Elston and Audretsch, 2011; Marlow and Patton, 2005) as poorly capitalized firms are less likely to hire new employees or make new long-term investments that could accelerate economic growth and lead to employment and higher output (GDP) (Cole, 2008). Therefore, credit constrains is one of the most fundamental issues facing a small business (Sena et al., 2012; Cole, 2008). It is also known that SMEs are more likely to be more constrained in their access to finance than larger firms (Freel et al. 2012; Levenson and Willard, 2000).

Bank lending has been identified as the most common form of external finance for SMEs (Freel et al., 2010; Verheul and Thurik, 2001). The problems involve finding lenders, as lack of collateral makes risky start-ups often unsuitable borrowers (Freel et al., 2010; Elston and Audretsch, 2009), and their assets are predominantly intangible

ideas, copyrights, licenses, or patents and therefore cannot qualify for collateral based lending (Elston and Audretsch, 2009). Especially, new technology-based firms (NTBFs) suffer from credit rationing as the amount of bank lending are hardly sufficient to start operations (Colombo and Grilli, 2007) and credit constraints in the debt market (Hogan and Hutson, 2004). Founders of new technology-based firms (NTBF) perceive severe information asymmetries between themselves and banks. Banks are viewed as being reluctant to provide funds to software product firms and require fixed assets as collateral (Hogan and Hutson, 2004).

As banks find it difficult to choose the right SMEs due to adverse selection or moral hazard and therefore SMEs don't have the track record and accounting reports to prove their creditworthiness and face far more a severe asymmetric information problem than larger companies when entering a banking relationship (Chandler, 2010; Freel et al., 2012, Hogan and Hutson, 2004). Therefore, imperfect and asymmetric information problems lie at the heart of financing small businesses (Berger and Udell, 1998).

In order to reduce the risk of adverse selection or moral hazard, large banks are using computer-based systems of decision-making such as a credit-scoring system that has become an industry standard under which all applications are judged, and also which minimizes the chances of discrimination (Blake, 2006) by any particular characteristic (gender, race, age, sector, new and fast growth) in seeking access to bank finance (Deakins et al., 2008). In the UK it is commonly referred to the ´3 Cs´ system that includes credit, collateral and capital (Blake, 2006).

Stiglitz and Weiss (1981) model shows that selection problem can lead to credit rationing and some creditworthy SMEs not receiving any or sufficient financing. In their model, all borrowers apply for financing given a low enough interest rate, making

the refusal rate an indication of credit rationing. Adding loan application costs to the imperfect screening model, some creditworthy SMEs might not even apply as they fear their request will be refused. Those are known as ´ *"Discouraged Borrower", defined as a good firm, requiring finance that chooses not to apply to the bank because it feels its application will be rejected.´* (Kon and Storey, 2003, p.47)

Difficulties involving access to finance for SMEs has led those in need of finance result in being discouraged to apply for a loan. Although some SMEs would be classified as ´good borrowers`, meaning that they would qualify for a loan after being examined by the credit scoring system and are in the need of capital they are discouraged borrowers that decide not to apply believing they will be rejected. Cole (2008) argues that a significant portion of the "discouraged" firms would be successful in obtaining credit if only they would apply.

The field of discouraged borrowers and the results of this study are of great importance not only to the firms that are not applying, but also to prospective lenders to these firms and to policymakers interested in improving access to finance of these firms (Freel et al. 2012; Levenson and Willard 2000; Chandler, 2010; Freel and Robson, 2009) in particular female owned businesses (Madill et al., 2006). Women-owned businesses are of particular importance as the extent growth and viability of those firms are limited due to the lack of access to capital (Madill et al., 2006). Women that do not use risk capital to enable growth and survival, prosperity and economic self-sufficiency may be jeopardized (Orser et al., 2006).

Although the focus of policy has been already on SMEs (Deakins et al., 2008) to allow firm growth this paper can help shape better policies. Policymakers therefore will be able to have new insights on how to improve macroeconomic policy and regulations to limit discouragement when they need credit (Cole, 2008) and may introduce supply-

side initiatives to help to overcome funding gaps (Freel et al., 2012; Levenson and Willard, 2000). Gaining a deeper understanding about why good borrowers are discouraged, could close financial gaps and improve access to finance to those with potential of being good customers to financial institutions, creates awareness regarding this misperception of not being able to qualify for a loan and may accelerating economic growth. In other words, research gives a deeper understanding of why discouragement happens and also what encouraged others to apply. Therefore, research in this field may provide better information to finance providers, business advisers and policy makers.

4.4 Time frame

4.4.1 SMEs finance in Austria and the UK

The European Commission '2013 SMEs' Access to Finance survey, 'Analytical Report' provides data on the differences in the usage of finance between Austria and the UK. According to European Commission (2013) data shows that in the EU 21%, Austria 23% and in the UK 13% applied for a bank loan (new or renewal). In the EU 7%, Austria 1% and in the UK 6% did not apply because of possible rejection. In the EU 50%, Austria 66% and in the UK 61% did not apply because of sufficient internal funds. In the EU 21%, Austria 10% and in the UK 14% did not apply for other reasons. In the EU (2/%), Austria (1%) and the UK (6%) gave no answer. Applying for a bank overdraft 21% in the EU, 20% in Austria and in the UK 19% have applied. In the EU 5%, Austria 0%, and the UK 5% did not apply because of possible rejection. In the EU 50%, Austria 67%, and the UK 58% did not apply because of sufficient internal funds. In the EU 22%, Austria 14% and in the UK 13% did not apply for other reasons. In the EU 2/%, Austria 0%, UK 4% gave no answer. This figures show that Austrian business owners are more likely to apply than the ones in the UK.

In the EU 65%, in Austria 80% and in the UK 65% applied and got everything from their bank. In the EU 9%, Austria 7%, UK 8% applied and got most of it [between 75% and 99%]. In the EU 7%, in Austria 10%, UK 2% applied but only got a limited part of it [between 1% and 74%]. In the EU 1%, Austria 0%, UK 4% in applied but refused because cost too high. In the EU 13%, Austria 4%, in the UK 18% applied for a bank loan but was rejected. No answer were given by 5% in the EU and 2% in the UK. This means that currently strain business owners are more likely to get the full loan.

4.4.2 Economic situation

The time frame of the study has to be considered in the study. Cowling et al. (2012) results suggest that in periods of relative economic prosperity the opportunity for investment differs across entrepreneurs and therefore their demand for capital is also different. But in recessions with decreasing demand across the economy these opportunities fade (Cowling et al., 2012). The economic situation during this time frame such as the financial crisis influences how much capital was available for SMEs. Based on the European Commission 2013 SMEs' Access to Finance survey, Analytical Report there have been differences in the usage of finance between Austria and the UK as well as the timing. Data found that SMEs in the UK 65% be given the full bank loan they requested in 2013 but only 48% in 2011. Use of loans as a source of financing in the EU is 50%, in Austria is 39% and in the UK 40% in 2013. While in 2009 in the EU it was 47%, in Austria it was 41% and in the UK it was 31%. It shows that shortly after the financial crisis there was a small increase of Austrian business loan usage but a stronger decrease in bank loans for business owners in the UK. Entrepreneurs' demand for external finance changed as the economy entered recession and became more difficult to access as the recession progressed in the UK (Cowling et al., 2012). Furthermore, Cowling et al. (2012) UK study showed that during a recession lending institutions

appear to use firm size as their primary lending criterion with micro business in particular being restricted in their access to capital and lenders seem to ignore growth orientations (Cowling et al., 2012).

According to European Commission (2013) companies that used internal funds in the past 6 months in 2013 were 26% on average in the EU, 40% in Austria, and 30% UK and in 2009 short after the financial crises: EU (48%), Austria (68%), UK (59%). That means that a year after the financial crises when the economy was still recovering internal finance was by almost 40-50% more likely used by SMEs owners. SMEs that had used debt financing in the past six months in 2013: EU (75%), Austria (74%), UK (85%) and in 2009 short after the financial crises: EU (61%), Austria (68%), UK (70%). SMEs that used equity financing in the past 6 months in 2013: EU (5%), Austria (3%), UK (9%) and in 2009 short after the financial crises: EU (2%), Austria (2%), UK (1%). In other words as the economy became more stable there was an increased usage of debt finance as well as equity finance. Cowling et al. (2012) study showed that finance was more readily available to larger and older firms throughout the recession at its peak, while 119,000 smaller firms were denied credit in a three month period in the UK. North et al., (2013) research assessing the impact of the financial crisis on young and established technology-based small firms (TBSFs) where external finance has been available access to finance has proven to be difficult to achieve under the terms and conditions set by providers as they were often unacceptable to business owners, particularly for early stage funding and for more R&D intensive firms, which hindered their growth potential (North et.al., 2013).

4.5 Theoretical framework

There are two theories which are drawn upon and tested in this study. Firstly, there is the pecking order theory associated with the work of Myers (1984) and Myers and Majluf (1984). With pecking order theory it is assumed that the entrepreneurs are capable of recognising which sources of finance are available and then rank and use the sources in an order of priority from internal finance to debt finance and then equity finance. Secondly, there is the theory of discouraged borrowing associated with Kon and Storey (2003) which looks at goof viable firms who need finance but do not apply for bank finance because they perceive that their application will be turned down. Gender is an important characteristic which is investigated in relation to capital structure and also discouraged borrowing. The gender effect is linked to the established human capital theory which is often used as a theoretical tool to explore access to finance (Storey, 200; Honig, 1998; Cavalluzzo et al., 2002). There is an underlying assumption, based on human capital theory, that employees with more human capital (in the form of education and experience) are more productive than comparable employees in high technology, entrepreneurial firms and industries as those employees have a greater ability to solve problems and adapt to changes in the external environment (Wright at el., 2007). In the context of this thesis the focus is upon the extent to which women are disadvantaged in the capital structures that they build, and that women are also more likely to be discouraged compared to men.

4.6 Operationalisation

The main objectives of the quantitative study are firstly the examination of the capital structures followed by the entrepreneurs and the quantifying of the presence of discouraged borrowers and credit rationing in the UK and Austria; and, secondly, the

extent to which gender is linked to the formation of capital structures and the discouraged behaviour of the entrepreneurs; and thirdly, to examine whether being a discouraged borrower is a temporary phenomena. This section of the chapter will provide an overview of the research strategy used; the rationale for the researcher using a quantitative study which used a mail out survey, and the reasons for using qualitative face to face interviews. The section will also indicate the other main alternative research methodologies which were available and why they were not followed. Subsequently, the section will outline the choice of countries for study – Austria and the UK. This will include reflections of the sample population, how to negotiate access to allow the data to be harvested, and the administration of large scale quantitative surveys and interview transcripts; and the criteria for inclusion in the sample frameworks.

4.6.1 Choosing a research strategy

In essence a research strategy of a thesis is about the overall and also detailed targets and tactics which have been applied to harvest the data in an ethical and responsible manner to answer the research questions and test the individual hypotheses as accurately as possible. There are potentially a huge array of possibilities in drawing up the research strategy, and whilst a subsequent section outlines the problems and difficulties encountered there needs to be a note that no research is ever perfect. In developing my strategy it was necessary to reflect upon the resource implications of following different routes in terms of time and money. Given the time restriction to complete a PhD in 3-4 years within a limited financial budget it was necessary to reflect upon following a cost effective strategy which would allow me to fulfil my objectives without having to compromise on the research questions, and the quality of the data that I would be using (McNabb, 2004). Within business and management schools there is a

large selection of research strategies that can be followed. Quantitative research methodologies dominate in questions relating to access to finance and that involves assembling a large data set. Questionnaires are the main vehicle for gathering data for quantitative research but there are several types of questionnaires that can be followed. Questionnaires can be gathered in a face-to-face manner where the researcher sits with an entrepreneur whilst they complete the questionnaire. Alternatively, a questionnaire could be distributed by mail. More recently telephone questionnaires have become more prevalent and are often performed for academics and organisations by companies such as BDRC Continental. Also, with advances in technology and the ubiquity of using the internet for gathering information and sending and receiving emails, the use of internet on-line surveys have also become increasingly common (Saunders, 2013). Qualitative research methods make available further approaches which need to be assessed in developing the research strategy. Interviews with entrepreneurs could be undertaken face-to-face or over a telephone. The questions can follow a very regimented and restricted format; or the questions and the interviews can be semi structured; or the questions could be entirely open. Depending upon research questions being investigated potentially any of the aforementioned approaches can be followed.

In reflecting upon the above issues it was felt that in order to test the research questions in this thesis these can best be answered by me undertaking face to face qualitative interviews. However, in performing the literature review on access to finance, and reflecting upon research methodologies it is clear that depending upon the specific questions investigated and the specific approach followed, each of the possible techniques comes with both pluses and minuses. From looking at existing PhD theses at the British Library Ethos depository (See http://ethos.bl.uk/Home.do) it is clear that in Business and Management Schools qualitative approaches predominate in studies related to entrepreneurship topics, and that quantitative approaches, and to a lesser

extent mixed methods strategies of following qualitative and quantitative approaches are very much in the minority.

4.6.1.1 Reasons for choosing face-to-face interviews

In this qualitative research study I used interviews with 25 participants in the UK and Austria for the qualitative study based on face to face interview. The qualitative methodology is used to fill research gaps in the literature review of discouraged and credit rationed borrowers. The qualitative methodology focusses on the reason behind the phenomenon of discouraged and its linkages with access to finance more broadly defined. It is acknowledged that the qualitative approach does have limitations. It is not possible to perform statistical and econometric techniques. The interview techniques in this research are semi-structured interviews together with a small structured questionnaire where the later allowed the assembling of a picture of the overall access to finance experience of the entrepreneurs. In other words, this gave me as an interviewer the opportunity to ask prepared questions as well as ask additional questions to clarify the participant's responds if necessary. I used open ended questions where the respondent was encouraged to answer in his/her own words. It is frequently suggested that qualitative research methodologies provide a richness of data that is not possible with a questionnaire approach (Riley et al., 2000).

To turn the interviews to information the main task is to classify and categorize what has been said using context analysis techniques to understand the underlining reason for being discouraged that was not clear can be researched and analysed. The advantages of using interviews is that the level of meaning, feeling and value and how individuals and groups think about their world and how they construct the reality of that world can be analysed and therefore the interview provides explanatory insights. In

order to get rich data, the collected data is sensitively interpreted. To get the real benefit of interviewing detailed planning is essential (Riley et al., 2000).

To find participants I went on different entrepreneurship conferences and often interviewed the participants face to face. I preferred to interview them face to face as the personal contact relaxed the situation, made it easier to explain the research study to participants and also made it easier to hand out the first part of the questionnaire which was a multiple choice questionnaire and I could easily check if everything is filled out correctly immediately. There were also a few plank spaces to fill in information such as the participants name and contact details which were not possible for a multiple choice option.

Part 2, the semi-structured interview was then taped. All ethical policies were carefully followed. The entrepreneurs were made clear the nature of my study and that the research would only be used for academic research. The tapes would be transcribed and then within a period of three months the tapes would be destroyed. Their names would never be revealed and thus anonymity would be preserved. When it was not possible to interview them in person face to face, video skype interviews were conducted. However, sometimes interviews were only possible via Skype and some entrepreneurs preferred to be interviewed without using webcam. Therefore, sometimes it ended up just being a telephone conversation over Skype.

According to Riley et al. (2000) telephone interviewing requires much the same planning as face to face contact; a more structures approach than you might consider necessary for a face to face interview, because without the useful cues apparent in the face to face contact it is less easy to monitor responses which suggest misunderstandings or inconsistencies (Riley et al., 2000).

Although telephone interviews were cheaper and asking sensitive questions by phone are more effective as the interviewer is not physically present, it is much easier for the interviewee to terminate the telephone interview that one which is conducted in person. It is also not possible to observe body language as a respond to questions (Bryman and Bell, 2011). Therefore telephone interviews were only conducted when necessary.

At this point the advantages of quantitative research need to be acknowledged. Quantitative research which follows a positivist approach allows hypotheses to be tested. Hypotheses can be tested, orders of magnitudes of the relationships between key factors can be established, and patterns can be uncovered (Whitfield, 1998). Quantitative research is used for predictions, causal explanations and generalizations. Quantitative methods use hypothesis and theories, manipulate controls, uses formal instruments, experimentations, deductive and uses a component analysis. While the purpose of qualitative research is to conceptualize interpretive and understand actor's perspective of the field. The qualitative approach is it to provide a hypothesis and ground theory, uses emergence and portrayal approach, the researcher is the instrument, a naturalistic and inductive approach, and searches for patterns (Glesne and Peshkin, 1992 cited in Wilson, 1998). There are three general levels of complexity: exploratory studies, small-scale studies and large scale studies. The exploratory study generates the most simple research proposal followed by the small-scale study and the large-scale professional study is the most complex proposal (Blumberg, 2005).

4.6.1.2 Reasons for not choosing the other methods

4.6.1.2.1 Qualitative

In the qualitative research a single in depth case study could have been followed, but was unsuitable for this study as it would not have provided enough explanation on complex capital structures of entrepreneurs. Therefore the choice was to use at least 12 interviews with entrepreneurs for each country. Interviews with entrepreneurs allow the research to investigate a number of individual situations (Riley, 2000). Unstructured questions were only used when one of the structured questions answers needed clarification. Rather than using face- face interviews, postal and e-mail questionnaires were also considered, however although this would be the least expensive method and saves time, it is also associated with delays in responses, a high rate of non-response associated with postal and e-mail questionnaires and may not be a true representative of the target population, and the researcher is unable to tell who actually responded to the questionnaire (Couper, 2000). Also face- to face taped interviews avoid that participants have to write a lot and may be easier persuaded to participate. Furthermore, simply open ended questions are more easily answered and additional question can be easier asked when necessary.

4.6.1.2.2 Quantitative

For the quantitative part, collecting primary data was difficult due to financial, logistic and time reasons. Secondary data sets could also have been used but those are not ideal because the data has been gathered by someone else and the purpose will be different to my thesis.

4.6.2 Choosing a research site (area)

The interviews were conducted in Vienna, Austria and London, UK. Austria is known for being a more bank-based system rather than a market-based financial system such as in the UK (European Commission 2003, Lehmann and Neuberger, 2001). Regarding bank loan applications, 84% of applicants in Austria but only 48% of applicants in the UK have received everything the applied for (European Commission, 2011). These contrasts may influence the choices of capital structure as well as discouragement and therefore interesting findings are predicted.

The choice of the UK and Austria was because of the following reasons:

(i) The UK and Austria are both developed nations.

(ii) There are differences between the UK and Austria which may contribute to producing more rich findings. Austria is known for being a more bank-based system rather than a market-based financial system such as in the UK (European Commission 2003, Lehmann and Neuberger, 2001). Regarding bank loan applications, 84% of applicants in Austria but only 48% of applicants in the UK have received everything the applied for (European Commission, 2011). These contrasts may influence the choices of capital structure as well as discouragement and therefore interesting findings are predicted.

(iii) Very little research has been done on prior business ownership experience and business closure outcomes (See chapter 2) and with regard to access to finance there is a paucity of research. As indicated in chapter 1 there is a pressing need for research on access to finance and the relationship with entrepreneurial experience and business closure outcomes, and to offer suggestions for practitioners, policy makers, and entrepreneurs, and to help advance theory.

(iv) The researcher is an Austrian citizen and has substantial experience of interacting with entrepreneurs, and the researcher has worked in the financial sector in Austria. The researcher has lived in the UK for 14 YEARS and is bilingual in English and German.

This will undoubtedly be a big advantage in being able to access data and also improve the quality of data which is harvested.

4.6.3 Choosing a sample frame

Before individual questions can be answered by entrepreneurs it is necessary to decide on the sample frame population which will be used. Curran and Blackburn (2001) lamented the lack of a register of small businesses in the UK. Equally, with regard to entrepreneurs as the unit of analysis there is also a lack of existing registers in the UK. For the quantitative chapters of the thesis an existing data set is used, but it is important to reflect upon the way that the data was harvested – to better understand the research process and to ensure that the data is fit for purpose.

The study will take advantage of contacts at the Austrian Federal Economic Chamber[1], private contacts and contacts at different banks in Austria and the UK to have a large choice of samples. A substantial number of entrepreneurs will be contacted and details will be collected. The study population consists of SMEs (German: KMUs) needing or considering bank finance in the UK and Austria. A convenient sample of 12 subjects in each country will be selected.

4.6.4 Criteria for sample selection

The participants in the face-to-face interviews is based upon the following criteria:

(i) the firms have less than 250 employees;

(ii) the firms are independent and thus subsidiaries and public companies have been removed;

[1] https://www.wko.at/Content.Node/wir/Austrian_Economic_Chambers_Home.html

(iii) the entrepreneurs key respondent entrepreneurs were the principal owners of at least one business they had established or purchased, and were key decision-makers in the surveyed business;

(iv) The entrepreneur and their business must be located in the UK or Austria for the face-to-face interviews.

4.7 Piloting and screening

Face validity was addressed using a pilot study of the quantitative questionnaire, and also a pilot of the interview questions. The designer of the quantitative survey performed a pilot of three entrepreneurs who were personally contacted and asked to comment on the content, design and layout of the questionnaire. The views of two internationally recognized entrepreneurship academics were also sought. Comments were incorporated into the revised structured questionnaire. The main problem was the length of the questionnaire which needed to be reduced; but, the feedback on the wording of the questions and the running order of the questions was that there were no issues or concerns. Indeed, the feedback on the entrepreneurial prior business ownership experience questions was that those questions were straightforward to follow, and were not sensitive. Thus, no major problems with the structured questionnaire were detected.

A pre-test pilot was undertaken in London and also Vienna to identify flaws to see if any of the questions in the interviews need to be altered. The pilot interviews were done to two entrepreneurs in London – one novice and one habitual entrepreneur, as well as two entrepreneurs in Vienna – again, one novice and one habitual entrepreneur. Several issues emerged such as the set of questions being too long for the interviewees, the ordering of some of the questions needed changing, and the manner in which sensitive issues on prior entrepreneurship experience needed to be revised and

approached in an even more sensitive manner. These issues are further articulated later in the chapter. However, the benefit of the pilot was a revised set of questions, a revised batting order, and a need for greater sensitivity.

4.8 Questionnaire administration

The interviews in Austria (Vienna) and England (mainly in London) were carried out in February and March 2013 to 25 entrepreneurs in the two countries. Although, it was planned to interview 12 in the UK and 12 in Austria, I was able to get 13 interviews in Austria which were high in quality and therefore I decided to use all 13 interviews from the Austrian sample. For practical purposes, our analysis is restricted to a limited number of firms. Data will be collected in 3 stages.

Stage 1:

The first stage consists of a series of questions to establish basic information about the entrepreneurs and their businesses. The basic information includes demographic data such as age, education level, experience, income, gender etc.

Questions:

After having made sure (s)he is the business owner and that they bought or established the business and that they presently have a major or a minor equity stake in the business I will ask them if they would like to participate in my study. If they approve then the first stage of the questions will be asked which are the more basic questions. The entrepreneurs will be explained the purpose of my research, and assured that the information will remain anonymous and only used for academic research. Each entrepreneur will be asked if they would be ok with the interview being recorded so that

I don’t miss anything from their answers and I can give them my full attention – rather than scribbling away with notes whilst the interview is taking place.

ACCESS TO FINANCE FOR ENTREPRENEURS

in the UK and Austria

SURVEY 2013

Part 1

Judith Miriam Fastenbauer
School of Management

Royal Holloway
University of London

1

Research aims

The research will be a qualitative comparative study between two countries (the UK and Austria) and conducted in form of mini case studies of 24 firms (12 in each country) in which the focus is on access to finance, and especially identifying discouraged borrowers (good firms, requiring finance that chooses not to apply to the bank because it feels its application will be rejected) and non-discouraged borrowers, as well as constrained and credit rationed in capital structures. The survey will be divided in 3 stages.

Research procedure

Stage 1: Questionnaire

The first stage consists of a questionnaire to be filled out by the participant to establish basic information about the entrepreneur and his/her businesses.

Stage 2: Open-ended interview questions

The second stage consists of a tape recorded interview using open-ended questions.

Stage 3: Follow up (only if necessary)

The third stage consists of a follow-up telephone conversation, which will only take place if additional information has to be gathered or clarified.

Ethical considerations

The study will be conducted ethically with the participant right to self-determination, anonymity, confidentiality (i.e. not disclosing the entrepreneur name and contact details or company name), with informed consent and the information gathered will only be used for academic research.

Participant's importance

In this study participants are essential for conducting the research as they provide the knowledge of their real life experience. The participation of those individuals gives them the opportunity to contribute to original research and their knowledge will be added to the academic research literature. All participants will be offered a copy of my report.

Questionnaire

Personal information:

1. **Name of participant (will be kept confidential):**_____
2. **Contact number (will be kept confidential):**_____
3. **Email (will be kept confidential):**_____

Characteristics of the founder:

4. **Gender of participant:** Male ◻ Female ◻
5. **Age of participant:** _____
6. **What is your marital status?** Single ◻ Married ◻
   Separated ◻ Divorced ◻ Widowed ◻
7. **What is the highest level of academic qualification obtained by you?**
   GCSE ◻ Bachelor degree◻ PhD ◻
   A-Level◻ Master degree ◻ Other: _____
8. **Citizenship:** Domestic ◻ Foreign (EU) ◻ Foreign outside EU ◻

Company information:

9. **Name of company (will be kept confidential):** _____
10. **When was this business established?** Year:_____
11. **Where is the company located?** UK: ◻ Austria: ◻ Other country:_____
12. **What is the legal status of the firm:**
    Sole proprietorship ◻ Partnership ◻
    Limited liability company, not publicly listed ◻
    Limited liability company, publicly listed ◻
    Others:_____ ◻

13. **What does your business make or sell? In other words, what are your key products or services?** _____

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14. **What sector is your business in?**

Agriculture	□	Hotel industry	□
Consultancy/Business Services	□	Internet	□
Education	□	Maintenance	□
Entertainment and recreation	□	Manufacturing	□
Food	□	Miscellaneous Services	□
Franchise/ Resale	□	Real Estate/Property	□
Gastronomy	□	Retail	□
Health and Beauty	□	Tech & Media	□
Healthcare	□	Wholesale & Distribution	□
Home services	□	Other:_____	

15. **What route does your product/service use to the market**?

Direct to customer/client □ Through wholesaler/retailer/middle man □

16. **What route does your product/service use to the customer?**

Online□ Physical□ Other: _____

17. **Do you currently have any partners in the business?** Yes □ No □

If yes, how many?_____ What is their percentage?_____

18. **Are financial decisions made in a team or by an individual?** Team □ Individual □

Who is the team or the individual?_____

19. **How many people work in the business (full time and part time)?**

_____

20. **Do you have any financial qualifications or training?** Yes □ No □

If Yes, Which one? _____

If No, then do any of the other people in the business have any sort of financial qualifications or training? Yes □ No □

If Yes, which one?_____

21. **What was the turnover of the business in the last financial year?**

Less than £100,000	□	£1 million to £4.99 million	□
£100,000 - £499,999	□	£5 million to £9.9 million	□
£500,000 - £999,999	□	£10 million or more	□

22. **Was this the first business that you have bought or established?** Yes □ No □

23. **Do you currently also own any other businesses in addition to this business?**

    Yes □ No □ If Yes, which one(s):_____

24. **If you have any other businesses: what was the turnover of any other businesses in the last financial year you have?**

	1 other business	**2nd other business**	**3rd other business**
Less than £100,000	□	□	□
£100,000 - £499,999	□	□	□
£500,000 - £999,999	□	□	□
£1 million to £4.99 million	□	□	□
£5 million to £9.9 million	□	□	□
£10 million, or more	□	□	□

Past experience

26. **What experiences apply to your business?**

    I had experience in the same economic/ business activity as my start-up business(es)□

    I had experience starting-up a business before starting the current one □

    I had undergone bankruptcy of one of my business(es) before starting-up the current one □

    I have followed formal business training (e.g. professional courses, internships providing practical start up training, etc.) □

    I have taken a BA, BSc, MA, MSc, MPhil, PhD or any academic courses from a University in Entrepreneurship, Small Business Management, Start-ups, New venture creation, or Business planning etc. □

27. **How many years of business experience do you have prior to your start-up as employee and owner?** _____

Start-up stage

28. **Why did you buy or establish the business?**

    To make money □

    Had a good business idea □

    To be own boss / wish for independence □

    To fulfill a life's ambition / personal goals □

Family members are/were entrepreneurs ◻
Only option for this profession ◻
Lack of other jobs or opportunities ◻
Inherited or took over business ◻
Unsatisfied with 9-5 job ◻
To develop a hobby or skill ◻
To have a better work/ life balance ◻
To fit around family commitments ◻
Other reasons: _____

29. **What did you find difficult when starting up your enterprise?**

To get financing ◻
To establish contacts with customers ◻
To obtain payment for outstanding invoices ◻
To price my goods/services ◻
To find suitable premises ◻
To find suppliers ◻
To get suitable personnel ◻
To use information technology effectively ◻
To deal with legal / governmental / administrative matters (registration, taxes etc.) ◻
To be alone as an entrepreneur ◻
To get support for the idea ◻
To get backing from my spouse/family ◻
None / not relevant ◻

30. **Which sources of finance were used at start-up (in other words when the business was founded) to finance the business?**

Founder´s own funds ◻
Funds from spouses or life partners ◻
Funds from other family members ◻
Funds from other individuals excluding Business Angels ◻
Financial institutions (e.g. banks) ◻
Government Funds ◻
Venture Capitalists ◻

Business Angels ☐

Other:_____ ☐

31. **At firm start-up have you sought:**

Loans/financing from family and friends unsuccessfully ☐

Loans/financing from other individuals outside the firm unsuccessfully ☐

Loans/financing from banks or other financial institutions unsuccessfully ☐

Government funding unsuccessfully ☐

Venture Capital unsuccessfully ☐

Business Angels unsuccessfully ☐

Other financing sources that were not successful:_____ ☐

None of the above ☐

32. **Roughly what was the starting capital of the business?**

Less than £5,000	☐	£100,000 - £499,999	☐
£5,000 - £9.999	☐	£500,000 - £999,999	☐
£10,000 - £49,999	☐	£1m or more	☐
£50,000 - £99,999	☐		

<u>Finance after founding</u>

33. **Which sources of finance were used since start-up?**

Founder´s own funds/savings ☐

Overdraft ☐

Leasing or hire purchase ☐

Credit cards ☐

Asset based finance (e.g. Invoice discounting, factoring, stock finance) ☐

Funds/loans from friends ☐

Funds/loans from spouses or life partners ☐

Funds/loans from other family members ☐

Funds/loans from other individuals excluding Business Angels ☐

Funds/loans from owners directors or shareholders ☐

Financial institutions (e.g. Commercial loans / mortgages) ☐

Government Funds (e.g. Grants) ☐

Venture Capitalists ☐

Business Angels ☐

Equity finance / Issuing shares ☐

Other:_____ ☐

34. **If you have been seeking external finance for your business, please could you tick all financial sources you have used for your business:**

Founder´s own funds ☐

Overdraft ☐

Leasing or hire purchase ☐

Credit cards ☐

Asset based finance (e.g. Invoice discounting, factoring, stock finance) ☐

Funds/loans from friends ☐

Funds/loans from spouses or life partners ☐

Funds/loans from other family members ☐

Funds/loans from other individuals excluding Business Angels ☐

Funds/loans from owners directors or shareholders ☐

Financial institutions (Commercial loans / mortgages) ☐

Government Funds (e.g. Grants) ☐

Venture Capitalists ☐

Business Angels ☐

Equity finance / Issuing shares ☐

Other:_____ ☐

35. **What sources of funding have you obtained and used for your current business and in what time periods?**

Month/Year							
Founder´s own funds							
Funds from friends spouses, life partners, family members							
Financial institutions e.g. banks							
Government Funds							
Venture Capitalists							
Business Angels							
Other							

<u>Use of bank finance</u>

36. **Which is the main bank or financial institution used by your business?**

_____

37. **How long has your firm done business with the current bank?**

_____

38. **Loans from banks or other financial institutions was:**

	Current business(es)	past business(es)
Never sought	□	□
Loan not granted once	□	□
Loan not granted more than once	□	□
Loan granted once without guarantee by others	□	□
Loan granted once with guarantee by others	□	□
Loan granted more than once without a guarantee	□	□
Loan granted more than once with a guarantee	□	□
Loan partly granted once without guarantee by others	□	□
Loan partly granted once with guarantee by others	□	□
Loan partly granted more than once with a guarantee	□	□
Loan partly granted more than once without a guarantee by others	□	□

39. **Did you experience credit rationing?** Yes □ No □

If Yes, how often were you experience credit rationed in your capital structure when you apply for a bank loan?_____

40. **Were you ever in need of a bank loan but decided not to apply fearing you would be rejected and therefore felt discouraged?** Yes □ No □

If Yes, how often did you feel discouraged in your capital structure to apply for a bank loan?_____

41. **What triggered the belief that you would be rejected?**

Business is too new □

Low income from latest job for new founder □

Lack of proven cash flow for established business owners □

Lack of assets for security (collateral) □

Poor credit history □

Bankruptcy □

Prior debt □

Financial crisis □

Others:_____

42. **If you were to be rejected how great is your fear that it would have an impact on your future loan applications due to a bad credit history?**

Not at all	□	Quite a bit	□
A little bit	□	A lot	□
Some	□		

Financial attitudes

43. **Which financial sources do you have a positive opinion of? In other words, which sources of finance do you believe are good sources of business finance? Or which sources of finance have proven useful?**

Founder´s own funds	□
Overdraft	□
Leasing or hire purchase	□
Credit cards	□
Asset based finance (e.g. Invoice discounting, factoring, stock finance)	□
Funds/loans from friends	□
Funds/loans from spouses or life partners	□
Funds/loans from other family members	□
Funds/loans from other individuals excluding Business Angels	□
Funds/loans from owners directors or shareholders	□
Funds/loan from other companies	□
Financial institutions (Commercial loans / mortgages)	□
Government Funds (e.g. Grants)	□
Venture Capitalists	□
Business Angels	□
Equity finance / issuing shares	□
Other	□

44. **Which financial sources do you have a negative opinion of? In other words, which sources of finance do you believe are not good sources of business finance? Or which sources of finance have not proven to be useful?**

Founder´s own funds	□
Overdraft	□
Leasing or hire purchase	□

Credit cards ☐
Asset based finance (e.g. Invoice discounting, factoring, stock finance) ☐
Funds/loans from friends ☐
Funds/loans from spouses or life partners ☐
Funds/loans from other family members ☐
Funds/loans from other individuals excluding Business Angels ☐
Funds/loans from owners directors or shareholders ☐
Funds/loan from other companies ☐
Financial institutions (Commercial loans / mortgages) ☐
Government Funds (e.g. Grants) ☐
Venture Capitalists ☐
Business Angels ☐
Equity finance / Issuing shares ☐
Other ☐

45. **Which of these sources has been the most important for the business?**

Founder´s own funds ☐
Overdraft ☐
Leasing or hire purchase ☐
Credit cards ☐
Asset based finance (e.g. Invoice discounting, factoring, stock finance) ☐
Funds/loans from friends ☐
Funds/loans from spouses or life partners ☐
Funds/loans from other family members ☐
Funds/loans from other individuals excluding Business Angels ☐
Funds/loans from owners directors or shareholders ☐
Funds/loan from other companies ☐
Financial institutions (Commercial loans / mortgages) ☐
Government Funds (e.g. Grants) ☐
Venture Capitalists ☐
Business Angels ☐
Equity finance / Issuing shares ☐
Other ☐

46. **What is your attitude to financial risk?**

I make mainly very risky financial decisions ◻
I make mainly risky financial decisions for my business ◻
I make average risky financial decisions for my business ◻
I make mainly more careful financial decisions for my business ◻
I make mainly very careful financial decisions for my business ◻

47. **Access to financing for firms in your situation is regarded:**

Easy/Unproblematic ◻ Normal/Some minor problems ◻ Difficult/Problematic ◻

Future funding

48. **During the next 3 years the financing needs of the enterprise will:**

Be satisfied through sales/ transactions ◻
Be satisfied through friends or family financial support ◻
Require a first loan from banks or other financial institutions ◻
Require further loans from banks or other finance institutions ◻
Require giving away equity for the first time ◻
Require giving away more equity ◻
Result in the loss of majority ownership of the founder ◻
Other:_____◻

49. **During the next 3 years the enterprise will:**

Need no financing ◻
Seek loans/financing from owners without giving up equity ◻
Seek loans/financing from employees without giving up equity ◻
Seek loans/financing from friends or family without giving up equity ◻
Seek loans from banks or other financial institutions ◻
Seek loans/financing from friends or family against equity given to them ◻
Seek loans/financing from owners against equity given to them ◻
Seek loans/financing from employees against equity given to them ◻
Seek financing from others against equity (e.g. VC or BA) ◻
Prepare or execute an initial public offering on the stock market ◻
Other:_____ ◻

Stage 2: The open ended questions

The second stage consists of a semi-structured interview using open-ended questions as these contain more detail. A more semi-structured rather than a structured interview will be followed in the questions of stage 2 in this study because it offers sufficient flexibility to approach different respondents while still covering the same areas of data collection but in line of a set of questions arranged with the intention of taking each respondent through the same sequence and questions with the same wording. This approach helps to minimize variation in the questions interviewees and also reduces the possibility of bias that comes from having different interviews from different people, including of obtaining more comprehensive data from certain persons than from others (Patton, 1990). The importance of having the interview recorded is reminded to the reader, and within one day the interview will be transcribed whilst the information is fresh in my mind.

Interview:

The content of interviews had been divided in the following question type categories: knowledge question, behaviour questions, experience question, opinion/value questions, feeling questions (Patton, 1990). However, after conducting 5 pilot studies the organization of questions turned out to be unsuitable and the questionnaire was reorganized to create a better flow during the interview of the participants. The new organization and the final questionnaire was the following:

ACCESS TO FINANCE FOR ENTREPRENEURS

in the UK and Austria

SURVEY 2013

Part 2

Judith Miriam Fastenbauer
School of Management

Royal Holloway
University of London

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Instruction for interviewer:

1) Part 1 will be given to the participant
2) After the introduction page 2 of Part 1 was read by the participant, (s)he will be asked if (s)he has and questions and wants to continue taking part.
3) Stage 1: Questionnaire Part 1 will be given to the participant to fill out.
4) Stage 2: Open-ended interview questions Part 2 will be asked and the answers will be tape recorded provided that the participant gives his/her consent.

The check list at the end after both interview parts on page 6 should be used by the interviewer to make sure the most important information has been gathered.

Q 22: answer YES → cross out 2, 3

Q 23: answer NO → cross out 4

Q 33 34: Asset based finance ask 16

Q 34: NOT Financial institutions →cross out 14, 17, 27, 28, 39, 40, 41, 42, 43, 44, 45, 46

Q 38: if ticked Never Sought →cross out 17, 22, 23, 24, 26, 27, 28, 39, 40, 41, 42, 43, 44, 45, 46

Q 40 if NO cross out:14, 16, 19, 20

Stage 2: The open ended questions Interview:

Knowledge Questions: (K)

Behaviour Questions: (B)

Experience Questions: (E)

Opinion/Value Questions: (O)

Feeling Questions: (F)

Questions

1. Can you tell me about your current business(es)? (K) **(ALL)**
2. Can you tell me about your previous businesses and business experience of those you have established? (K, E) **(REP/SERIAL) If Q15: Yes, don't ask)**
3. If this is not the first business, what other businesses have you also established? Did you sell, exit and /or closed your business? (B) **(REP/SERIAL)**
4. Are other businesses still trading? (K) **(REP/SERIAL) If Q16: NO, don't ask)**

5. What start-up financing has been used for your business(es), especially the current one and why? **(See questionnaire question 30)** Founder´s own funds; funds from spouses or life partners, family members, friends, other individuals, or other companies; financial institutions; Government funds; Venture Capitalists; Business Angels; other **(ALL)**
6. Thinking about the sources of finance you have used (in the last three years) – recite the sources used to the entrepreneur – why did you use each financial source? (O) (See questionnaire question 33) Founder´s own funds; funds from spouses or life partners, family members, friends, other individuals, or other companies; financial institutions; Government funds; Venture Capitalists; Business Angels; other **(ALL)**
7. Have you considered other form of finance, if so which ones and why? **(ALL)**
8. Did you consider raising equity finance from a venture capital firm or business angel? (O) **(ALL)**
9. Would you consider using a venture capital firm or business angel in the future? (O) **(ALL)**
10. Which financial sources are you considering in the future? (O) **(ALL)**
11. Which financial sources do you have **a positive/negative opinion of** and why? (F) (See questionnaire question 43 and 44) **(ALL)**
12. Did you speak to many different banks before deciding whether to apply for a loan? (B) **(ALL)**

Applying for a bank loan

13. How far do you think your prior entrepreneurial experience is linked with your decision on whether to apply for bank loans? (discouraged borrowers) (E) (REP/Serial)
14. For those entrepreneurs who have experienced being discouraged borrowers, what changed to make you start to apply for finance? (B) (Discouraged/ apply)
15. Has economic/social environment changes influences your decision whether to apply for a bank loan or not?
16. Did asset based finance influence your decision whether to apply for a bank loan or not? (e.g. Invoice discounting, Factoring, Stock finance)(B) **(ALL)**
17. How many times and when has your business applied for a bank loan? (B) **(AppBANK if Q 34:** Financial institutions, 41 if NOT ticked Never Sought**)**

18. What were the circumstances in which you considered a bank loan? (e.g. debt needed for starting up, survival, expansion or other reasons?) (O) **(BANKLOANconsideration)**

19. When and at what stage did you feel discouraged from applying for a loan? (K) (Discouraged)

20. What alternative routes of capital structure did you as discouraged borrowers take? (K) (Discouraged)

21. How often have you applied for loans in the past? Has experience made you more confident to apply for a loan? Has experience made loans a less prioritised form of financial method due to knowledge of getting other sources of finance? (B) **(AppBANK if Q 34:** Financial institutions, Q 38 if NOT ticked Never Sought**)**

22. Have you applied for other businesses in the past for a loan? (See questionnaire question 29) If so when was it necessary? **(B)(ALL)**

23. What guarantors have been used to obtain a loan (in your current and in your past)? (See questionnaire question 38) (B) **(AppBANK if Q 34:** Financial institutions, 41 if NOT ticked Never Sought**)**

24. Did you apply for personal loans? If so, when did you apply for them? Did this prior relationship influence your decision to apply or to be discouraged? (B) **(ALL)**

25. Who are the institutions and/or people you have discussed with your decision to apply? (B) **(ALL)**

26. Have you ever been rejected for a bank loan (personal/ business)? How many times was the bank loan fully approved, partially approved, and rejected? (E) (See questionnaire question 38) **(AppBANK, if Q 34:** Financial institutions/ 38 if NOT ticked Never Sought**)**

27. Were you turned down fully, or partly, from any source you applied for (anytime and especially **in the last 3 years)**? (E) (See questionnaire question 38) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**

28. Roughly what proportion of the finance you have applied for have you received? (E) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**

29. Have others influenced the decision or given particular advice regarding applying for a loan? (E) **(ALL)**

30. Have loan officers influenced you in your decision or discourage/encourage you to apply? (E) **(ALL)**

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31. Did the loan officer make any suggestion that you would likely receive the entire amount/ partly receive the amount/ probably not be able to be given any loan? (E) **(ALL)**
32. Where the people who have influenced you in your loan decision the same gender as you? (E) **(ALL)**
33. To what extent is gender an important factor regarding financial choice, applying and receiving loan? **(ALL)**
34. Did education or training contribute to your decision to apply or not to apply for a bank loan? **(ALL)**
35. Did Business Insurances influence your decision not to apply? **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**
36. Would you have made a different decision or would your decision have been influenced if the friend/ family member/ loan officer have been more supportive/ different gender/ more experienced/ older or younger regarding your indication to apply for a loan? (O) **(BANKLOANconsideration)**
37. Did a fear of rejection ever stopped you seeking a bank loan for the business, or applying for another external source of finance in the last 3 years? If Yes, ask them to elucidate. (F) **(ALL)**
38. Have you felt discouraged to apply for a loan for any other businesses in the past? (F) **(ALL)**
39. Have you feared rejection for a loan but did apply anyway? (F) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**
40. How certain were you that you would be granted the loan? (F) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**
41. What made you most confident that your application would be successful? (F) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**
42. What made you most doubtful that your application would be successful? (F) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**
43. Have you ever applied for a loan being sure that the application will be successful and then surprised when you were unsuccessful or only partly successful? If so, do you know what were the reasons for it? And did this influence future applications, if so how? (F) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**

44. What would you say has had the strongest influence upon the instances when you did receive the sought finance? (F) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**
45. What would you say had the strongest influence upon the instances when you received less than the sought finance? (F) **(AppBANK if Q 34:** Financial institutions, 38 if NOT ticked Never Sought**)**
46. What would you say has had the strongest influence upon the instances when you felt convinced that you would be rejected? (F) **(ALL)**
47. Please describe your attitude and views regarding bank lending? (F) **(ALL)**
48. Thinking about your experience of finance, which sources of finance were obtained easily/problematic (See questionnaire questions 34) and what made then easy/problematic to be obtained and why? (Founder´s own funds; funds from spouses or life partners, family members, friends, other individuals, or other companies; financial institutions; Government funds; Venture Capitalists; Business Angels; other) (E) **(ALL)**
49. Has (business) experience changed you perception regarding applying for a loan? (E) **(ALL)**

Check list at the end of the interview:

50. When and at what stage does discouragement occur?
51. To what extent is prior entrepreneurial experience and business closure experience associated with those who are, and are not, discouraged borrowers?
52. What other common elements or facets are there in those entrepreneurs who are, and are not, discouraged borrowers?
53. What alternative routes of capital structure do discouraged borrowers take, if any?
54. For those entrepreneurs who have experienced being discouraged borrowers, what changed to make them start to apply for finance?
55. In each of the above questions to what extent is gender an important factor?

Stage 3: Follow-up interview

Entrepreneurs' good will is limited so the need for follow up questions need to be used sparingly. In the last stage after properly reviewing the questionnaires and the recorded interview is transcribed it may be necessary to contact a small subset of the participants by e-mail or phone for the last time to ask if the participant could clarify or add necessary information. On occasion this process of reviewing and elaborating the interview will reveal areas of ambiguity or uncertainty and further questions will have to be asked for classification and clarification. But, obviously, the piloting of the interviews, recording the interviews by tape recorder and then transcribing the interviews the day after the interview should hopefully minimize the need for any follow up interviews.

4.8.1 Questionnaire sampled

The research participants sample includes entrepreneurs from conferences, entrepreneurship university societies, network events and friends who happen to be entrepreneurs or I have met through my work in SME consultancies in the UK and Austria. Some of the issues involved were that most candidates were suitable candidates; however there were some on the events which didn't qualify for the sample as they haven't started their business yet or had their business outside the UK and Austria. Another issue was that those I couldn't interview due to lack of time on events or meeting were difficult to meet up with as they were living all over the UK. Therefore I decided to conduct the interview via Skype. It was also in general easier to find participants in Austria (around 50% of those asked) than in the UK (15-20% of those asked). Another issue was that it was easier to find male participants than female entrepreneurs. Therefore I went to events which were exclusively for women entrepreneur to increase female participation. As those were mini case studies using in

depths analysis of the individual financial structure and decision making process a sample of 13 Austrian (9 men and 4 women)entrepreneurs and 12 UK (8 men and 4 women) entrepreneurs proved sufficient.

4.9 Reliability, Validity and Ethical considerations

In total, 25 interviews were performed in this research study because the investigator predicts that similar results (replication) will be found so that the accuracy, validity and reliability of the results will be increased. If such replications are indeed found for several cases, the overall results are more reliable (Yin, 2009, p.53-60).

The study has been conducted ethically, with the participant right to self-determination, anonymity, confidentiality and informed consent. The subject was informed about the purpose of the study and consent was obtained before filling out the questionnaire. Anonymity (not disclosing the entrepreneurs or company name) and confidentiality (such as collected data provided will not be publicly displayed) was maintained throughout the study.

4.10 Data presentation and analysis

For the qualitative research the unit of analysis is the entrepreneur but the information which is analysed is predominantly, but not entirely, ‘words’ rather than ‘numbers’ (Saunders, 2012). For closed-ended questions, the data can be analysed by using simple descriptive statistics and incorporated into the overall qualitative investigation. But, by definition the study is looking at 25 entrepreneurs, and whilst such tabulations are useful it what they have said which matters. The open–ended questions will be analysed through qualitative analysis which includes making sense out

of what has been said by the different respondents, putting together all the information of all three stages of the research, integrating what different people have said, and looking for patterns (Patton, 1990).

Every single firm of the 25 firms will be firstly described in a summary profile which briefly explains the nature of the business and key characteristics. Then venture financial journey chronological orders and financial choices will be demonstrated and discouragement will be highlighted. If firms had been discouraged from applying for a bank loan in a certain time in the capital structure the proportion of hidden demand will be assessed. The case studies will be grouped in each country and compared between them in order to detect whether there are obvious differences between a bank-based and market-based system regarding discouragement in SME financial structures.

4.10.1 Recording responses and transcribing interviews

Qualitative analysis: After conducting the first of the pilot studies, the first interviews were transcribed by me, the interviewer. However, I realised that the transcription of the interviews were very time consuming and difficult. I was forced to rewind the recording the whole time and then correct spelling mistakes and realised that it would take me too long to transcribe all interviews by myself. Therefore I decided to have the interviews professionally transcribed. The English interviews were transcribed by an online transcription service in the UK and the German interviews were transcribed by a professional Austrian transcriber based in Vienna. All the interviews were transcribed within a few days and a maximum of 2 weeks depending on which service was selected. After I received all interviews in the written format from the transcribers I checked whether the interviews were properly transcribed by listening to them one more time while comparing them to the transcribed text.

I started with the UK interviews. Then the interview answers from all participants in the UK were put together in different coloured (e.g. blue, pink, green etc.) text to insure clarity who said what.to different answers on different themes. Those with similar answers were merged together. Eventually the answers were summarized and analysed. Each participant was giving an invented name to assure confidentiality. Once it was clarified in the text who said what by adding all he participants' names as reference the different colours in the word document were erased by colouring it black. The same procedures were used in the Austrian samples and in addition I the text had to be translated from German to English. Some of the problems of translating interview data are described by Xiang (2008) who argues that there are 3 types of problems are linguistic, sociocultural and methodological. The linguistic and cultural differences should be recognized so that data translation must negotiate a sense making process which involves the translator's knowledge, social background and personal experience (Xiang, 2008). As I lived in the UK and Austria I was able to integrate my knowledge into the translation.

4.11 Problems encountered during the fieldwork

4.11.1 Finding participants

Finding participants was more difficult in the UK than in the Austrian although there was more time available in the UK to find participants and I had in both countries personal contacts of self-employed, SME owners and entrepreneurs. The reasons it was more difficult to get participants in the UK were that some of the SMEs owner in the UK were less likely to be interested in participating because they didn't had the time to do it or simply couldn't be bothered. Although at the networking events I had participated were larger in the UK than the networking event I went to in Austria, I was

able to get far more people interested in participating at networking event in Austria to participate in my study. Furthermore, it was also more difficult to get from one place to another in the UK as travelling was often long distance of 1,5hrs journey to networking events to London and one large network event was in Nottingham.

Then those I meet face to face for the interview the travelling time was 1,5hrs travelling time one way. While in Vienna everything was more concentrated and some of the participants didn't mind to come to my location and others I had to travel were not further than max 30 min away. When I did find participants in the UK most of the time the participants they were located far away that sometimes only a video Skype conversation was possible and in some cases only a telephone or Skype call without video was possible. There were cases where I decided to let participants talk without interruption them which sometimes backfired as some had to go before the whole interview was finished. Which meant in most cases I had to find a new participant as the participant became annoyed and felt (s)he has been helpful enough. I realised that I have to be better in time management and to quicker to go through the interview to assure completion of both parts of the research.

4.11.2 Getting credibility and trust

Sensitive information

Some participants were worried about providing sensitive financial data. I explained to them that there is no obligation to provide any information the participant feels uncomfortable in given and that everything is 100% anonymous. I was also happy to provide written emails from my university account to confirm that the information provided will be confidential and anonymous and only used for research purposes.

Political fear

One of my friends in Vienna, Austria originally from Turkey offered to help me to find participants by asking some of her friends who are self-employed to participate in my study. She asked me repeatedly if it was a problem that her self-employed friends are all from Turkey and not originally from Austria. I explained to her that the focus is on capital structure choices of self-employed, SMEs owners in a certain national/legal context and that the origin of the participant is not the focus in this study. I reassured her that even in my UK sample many participants are not born in the UK and that it won't be a problem as long as they have started up their business and are allowed to get bank financing in Austria.

During an interview, her friend asks me if the study has only participants who are originally from Turkey. I told them that I interview anyone who has a SME business in Austria and that the origin of the participant is not important in this study. When I explained that I am a foreigner myself in the UK and that my university has one of the strongest international outlook in the world, the participant became more trusting, relaxed and opened up more. It seemed to me that the fear of prejudice and generalisation has led to those questions as the climate has been discriminating against Turkish people and in general foreigners from weaker economic countries by a minority in Austria lately.

4.11.3 Questionnaire

In the course of the pilot study some problems were identified regarding the questionnaire. The order of the semi-structured open question was unpractical and therefore had to be reordered as well as the flow had to be improved. Some questions in

both part which were similar were merged together or completely left out when found the question was unnecessary to shorten the lengths of the interview as a whole.

Furthermore, during the interview in the pilot study it became apparent that some of the participants understand terms such as ‘discouraged’ or ‘rationed’ differently. That meant I had to make sure that the exact definition is explained to the participants to avoid inconsistencies. Also translating the questions it was important to translate the meaning as precise as possible as well as translating the answers from German to English to avoid inconsistencies and that responses get lost in translation.

4.12 Conclusion

To summarise, the research aim was to analyse the capital structure and access to finance in particular discouragement in the UK and Austria. The research methodology was chosen to fulfil the objective of this study which is to identify discouraged and rationed borrowers in the capital structure and amongst, novice and habitual entrepreneurs. The underlying principle for this study was to outline objectives and provide recommendations based on the findings. In addressing the research questions a theoretical framework was developed which focused on human capital resource and signaling theory.

In choosing a research strategy, the questionnaire design and the administration of the questionnaires were done in line with the objectives of the study. The qualitative was a comparative cross cultural research study between two cultures (Bryman and Bell, 2011). In the qualitative part, in-depth structured and semi structured questionnaire interview approaches were selected .The selection of the population for the survey was done with the following considered criteria for the qualitative study: 25 participants (13 from Austria and 12 from the UK) which were self-employed, SMEs

owners, or entrepreneurs. In this study the focus was why and when in their capital structure are entrepreneurs discouraged. A couple of pilot survey were carried out and the necessary changes were made before the main.

The first two chapters of this study had looked at the introduction, the theories of finance and the literature review on access to finance and discouraged borrowers and the methodology adopted was qualitative multiple interviews for the qualitative investigation. The next chapters provide the qualitative research findings chapter, followed by a discussion of the findings, and lastly a conclusion chapter. The last chapter then provides the conclusion including some recommendation to the small business entrepreneur, practitioners and policy makers.

Chapter 5

Qualitative research on capital structure and discouraged borrowing in the UK and Austria

5.1 Introduction

The data analysis in this chapter is based on the Atherton's (2009) research on capital structures and financial strategies on new firms. His work will be extended by using pecking order theory to analyze the financial lifecycle of each entrepreneur and additionally to examine when discouragement to apply for a loan has taken place in the form of presenting their chronological decision structure and in a series of twenty-five interviews. Analysing qualitative information is difficult because interviews generate such a rich stream of information on the entrepreneurs and their financial lifecycles. In this thesis a matrix approach was followed to analyse the interview transcripts. In following a matrix approach several themes emerged in relation to the pecking order theory and discouraged borrowing of the entrepreneurs in the UK and Austria and they are: gender, prior business experience and the influence of economic changes, as well as the gender and background of the loan officers at banks and other financial institutions. The aim of the thesis is to test pecking order theory and the extent to which the entrepreneurs were discouraged borrowers. A novel aspect of the research is that discouraged borrowing is considered within the wider remit of access to finance, and thus the extent to which discouraged borrowing is a temporary phenomenon, or whether it is a more fundamental long term issue. The findings show that for certain groups of entrepreneurs raising finance is difficult due to specified characteristics that make it more likely that they are less able to articulate their propositions or business proposal effectively, perceived as too risky by the banks (Irwin

and Scott, 2010) which leads to discouragement from applying for a bank loan in the first place.

This chapter is organised as follows. Section two reminds the reader of the data collection process and the questions investigated in this chapter. Section three provides the description of the 12 British and 13 Austrian entrepreneurs. Section four looks at the capital structures of the entrepreneurs. Section five looks at attitudes to bank loans and finance. This is followed by developing the theme of discouraged borrowers in section six, and the role of experience in section seven. The role of gender is examined in section eight. Economic and social changes are developed in section nine. Lastly, a conclusion completes the chapter.

5.2 Data collection

The qualitative data was collected in the period February-March 2013 in the UK and Austria. However, prior to the main interviews 5 pilot studies were conducted and the questions were later improved and perfected. Despite the content was fine during the pilot studies it became apparent that some areas of the questionnaire still needed improvement. There were problems with the organisation of the questionnaire in the open ended interview. After reorganizing them there was a better flow in conducting the interview. Also some questions had to be clarified by improving sentence structure and wording in the questions. In the multiple choice questionnaire wording also needed to be improved and also it had to be shorten by taken out unnecessary questions to keep the participant more motivated to complete the questionnaire. Also conducting pilot studies that I improved in routine and confidence in interviewing the participants.

Sample selection is difficult in qualitative research. There was a reluctance to take part in the interview process because of time pressures for the approached entrepreneurs. Simply stated they faced time constraints in doing their normal business

activity so finding extra time to participate in an interview was a problem. In the end a convenience sample framework was adopted. The methodology chapter articulated the strengths and weaknesses of different sample frameworks including convenience sampling. The biggest drawback of convenience samples is that there was not an even mix of both sexes (a lot more men were found than women) to bring more diversity to the group. Therefore, controls were put into place to make the sample a little fairer so that after 2/3 of the sample were men the focus were to find only female entrepreneurs willing to participate. Maybe by using an equal number of each sex or other similar variables. Hence, the participants were selected from my personal business contacts and network events in both countries. All of the participants were self-employed or entrepreneurs with one or more business which had fewer than 250 employees. There were 12 UK participants and 13 Austrian participants. In order to investigate the theme of gender at least 4 female participants were included in each country sample. Indeed, in the UK there are 5 women and in Austria there are 4 women.

The interviews were in 2 parts: firstly a simple set of questions to have a good overview of the entrepreneurs and their experience of accessing external finance, and secondly, a series of open ended questions. In the UK the interviews were conducted in English and the interviews in Austria in German. Given that I am perfectly bilingual in German (Mother tongue) and English after having lived in the UK for many years the use of two languages is not deemed a problem. In the first section of questions the participant's main businesses characteristics were described and their capital structure/ financial choices will be collected. In the second part, the open ended interview which was tape recorded and then later transcribed and in case of the Austrian sample translated. Every effort was made to ensure that the participants were aware of the background and objectives of the study, and that their interviews would only be used for academic research and that their name and their businesses' name would be changed to

protect their identity. The respondents were all asked permission to use the interview material for academic research, and it was made clear that they could end the interview at any point in time. In this first part of the data analysis the responses of the Austrian and UK entrepreneurs' answers is contextualized against their level of education, their gender, as well as their attitude towards bank finance will be presented. And, to repeat, the names of all of the participants have been changed due to ethical considerations.

In this qualitative research evaluation the following key propositions will be investigated:

Proposition #P1 Entrepreneurs in Austria and the UK follow the Pecking Order Theory in the capital structuring of their firms.

Proposition #P2: Experienced entrepreneurs are more dependent upon internal sources of finance compared to novice entrepreneurs.

Proposition #P3: Male entrepreneurs but not female entrepreneurs in Austria and the UK will follow the Pecking Order Theory in the capital structuring of their firms.

Proposition #P4 Discouraged borrowing will be a temporary phenomenon for entrepreneurs in Austria and the UK.

Proposition #P5 Women are more likely than men in Austria and the UK to be discouraged borrowers.

The data analysis is divided into the following sections. Firstly, descriptions of the businesses in the UK and Austria are presented to allow the reader to have a better feel for the qualitative respondents. This is followed by comparing the capital structures in the UK and Austria, and attitudes to bank loans/finance in the UK and Austria. The extent and nature of discouraged borrowers in the UK and Austria is discussed. This then leads to sections which have looked at key themes which have emerged from the interviews relating to the influence of experience in the UK and Austria, the influence of gender in the UK and Austria, and the influence of the economic/ social changes in the UK and Austria. A section on key findings and a discussion of their implications then follows. Lastly, a conclusion completes the chapter.

Table 1: UK Sample

Name	Age	Gender	Business Age	Education	Legal status	Partners	Sector	Location	Risk level (1- least- strongest 5)	Main Bank	First established business	Discouraged	Applied for a loan?	Getting access to finance for your firms is..
1	28	Male	2009	Masters	Charity	Yes, 4 (4 co-founder)	Human rights sector (So third sector)	UK	2	HSBC, then Co-operative bank	Yes	No	No	Difficult
2	23	Male	2010	Bachelor	Partnership	Yes, 1	Retail	UK	3	HSBC	No	No	No	Normal
3	24	Male	2010	Bachelor	Limited liability	Yes, 1	Tech&Media	UK	3	HSBC	No	Yes	No	Difficult
4	27	Male	2011	Masters	Partnership with limited liability	Yes, 5 (inc. him)	Consultancy advice	UK	2-3	Bank of China	No	No	No	Difficult
5	36	Male	2012	Bachelor	Partnership-Limited liability	Yes, 1	Real estate	UK	3	HSBC	No	No	Yes	Normal
6	30	Male	2012	Masters	Limited liability	Yes, 3 (inc. him)	Internet (Mobile phone application)	UK	3	Barclays	No	No	No	Difficult
7	23	Male	2012	Bachelor (Finish 2013)	Sole proprietorship	No	Web design &developer, online marketing	UK	3-4	Santander	No	No	No	Easy
8	35	Female	2013	Diploma	Sole proprietorship	No	Health and Beauty (Massage therapy)	UK	1	Lloyds	No	No	No	Normal
9	27	Female	2008	Bachelor	Limited liability	Yes, 1	Tech and consultancy (Web development)	UK	2-3	HSBC and Barclays	Yes	No	No	Easy
10	25	Female	2011	Masters	Limited liability	Yes, 1	Wholesale& Distribution	UK	2	Barclays	No	Yes	No	Normal
11	28	Female	2012	Bachelor	Limited liability	Yes, 1 partner +2 investors	Online Psychotherapy	UK	1	Co-operative Bank	No	No	No	Normal
12	42	Female	2008	Masters	Limited Liability	Yes, 1	Internet Financial software	UK	1	Barclays	Yes	No	No	Difficult

5.3 Description of participants

Table 1 provides a summary of the key information relating to the entrepreneurs based in the UK. In the following section the information commences with an overview of the UK participants and then moves to the Austrian participants.

5.3.1. Overview of businesses: sample in the UK

Respondent #1

Respondent #1 is 28 years old and co-founded his first business, in 2008 which is a Charity in the Human Rights sector (third sector) and is currently classified as a charity. There are 4 partners (co-founders) including himself. The business has a social entrepreneurial model behind it. The service that they sell is a range of events and products to young people who are trying to access the human rights field. They are bringing together young professionals interested in human rights in London providing them with the tools to begin, establish or advance a career within the sector, through: online networking, events, fieldwork opportunities, blogging. The business is trying to provide them with 'an ecosystem of support'.

His main bank is HSBC, and he established this business. Respondent #1 is running his first business and thus he is a novice entrepreneur.

Respondent #2

The business was founded in 2010 and is a (50/50) partnership. It is a retail sector business that provides university merchandise in the UK, and has 2 full time employees and 6 volunteers. He and his business partner are both students. The clothes are distributed online and physically. They earned £6,000 in the first year, and they operate in the University of Manchester, MMU. Now they are expanding to other

universities, adding new product ranges; scarves, and T-shirts, and sweatpants. The clothes are produced in China and delivered directly to universities, and hence it is like a business to business.

Respondent #2's main bank is HSBC. Respondent #2 started his business career when he was 15 years old, and he imported jewelry from China which he sold to his friends to boost his income. Then he founded a kind of sole trader delivery service overnight with a couple of other employees back home in Latvia in a resort area where it was impossible to get alcohol after 10 o'clock. Steffen closed it down to continue with his higher education as it was only additional income for him. His revenue for the import business was micro but the delivery business it was around 15K, but then he closed it down because of higher education and he wanted something bigger.

Respondent #3

Respondent #3 is 24 years old and he founded his business in 2010 as a limited liability company (LLC). He has one other partner who has a share of 50%. In his business there are 3 workers (2 FT and 1 PT). It is an online media company that offers entrepreneurial advice through entrepreneurs themselves.

Respondent #3's main bank is HSBC. Respondent #3´s first business was a trainers company, which involved him buying and selling trainers and shoes in his first year of university. It started off quite small and it grew in to a proper online shop and then he sold it. The second company that he established was a student travel company which was not so successful and lost a lot of money, so it was closed.

Respondent #4

Respondent #4 is 27 years old and he banks with Bank of China. He founded his business in 2011 in China, and then in Jan 2012 in the UK the business moved from

being a partnership, to a partnership with limited liability. He has 4 partners excluding himself. 75% of the equity is owned by respondent #4. 6 people work part-time in the business. This is not his first business and he also has another business. The business encourages rich Chinese people, to explore and find better products in Europe.

Respondent #4 has a long history of business ownership experience: At the tender age of nine years old when he damaged a car with a football he started his business career. The owner of the car then taught him how to clean and polish it, so he set up a car-washing company with friends and made a good amount of money. They reinvested the money in buying more expensive car products, and then knocked on everybody's door. When he went to China aged 17 and he set up lots of different parties and launched events there. He sold one of the businesses in China and also exited a couple of things that didn't work out.

Respondent #5

Respondent #5 is 36 years old and he banks with HSBC. He founded his online business in 2012 which is a partnership with one partner (50/50) and there are 5 full time people and 2 part-time working in the business. The current business is a real estate agency business with sales and letting services. He also owns a networking website with another partner. It's actually in the process of being sold at the moment so it's offline for the time being until the sale has gone through. He is also a Business Angel investor. Only invested in all 4 businesses and owns 27.5% of the business. He used to do it himself but because of a high volume of work at the moment, he let his other business partner deal with it. Thus, he has four businesses at the moment. He has the same Real Estate business starting which is a separate business with different partners in the US.

Respondent #5 has previous business was in trading which he has been doing for over eight years. However in the past despite being a Sole trader he has had partners just buying a few properties and straight away having a buyer. Buyers don't go directly to the company because they can't always find the property as it is all about contacts or some sellers give it solely to certain people who are very big investors. The previous business was more successful than expected. Their strength was that they were very organized and had a good business model. The sales and rent -outs were very high.

Respondent #6

Respondent #6's LLC business was founded in October 2012. He is one of the three partners and people work there FT (1) and PT (2). The heart of the business is being an email client for iPads that brings the user closer to your email while on the go, and are going to be launching across other devices. They have small turnovers at the moment as it is still in the developing phase. He also owns two other businesses.

Respondent #6 banks with HSBC, and he has previous business ownership experience of a business which was a start-up which is a social analytics platform and it is still trading.

Respondent #7

Respondent #7 is 23 years old and he is currently a sole trader (with no partners) running a small web design business founded in 2012 where he builds websites for clients, and he manage social media; he does a bit of online marketing in the Chichester area in the south of England and also creates at the moment his own online blog that provides expert information for entrepreneurs.

Respondent #7 banks with Santander. He has been doing business since he was about 13 years old, although not successfully. Thus, when he was 14 he started a

vintage camera training business. Accordingly, he went round all the local boot sales, learnt about vintage cameras, bought them up and sold them to the dealers, and also went through eBay. Then he went onto computers, he bought up components, rebuilt them and sold them on eBay. A couple of years later he moved onto online sports trading. He sold off all the stock from the vintage camera business and the computer business and then shut that down. The trading business is still going when he has the time for it.

Respondent #8

Respondent #8 is 35 years old and she is currently setting up (summer 2013) as a sole trader which is not her first business, as an independent massage therapist, aiming at top/middle end clients, offering a range of different treatments at a range of different prices really.

Respondent #8 banks with Lloyds Bank. Her previous business was also in the health trade, where she was an independent distributor for organic vegetable boxes getting them direct from the supplier and the producer. It was a good business, and it thrived through word of mouth. But she wasn't pushing it because she was a single mum at the time. Eventually, the business was sold as a franchise, although it was offered to her as a franchise because she started it up. But she wasn't able to take that on as she was really struggling as a single mum and her health was very poor. Thus, she sold her customer share on to the person who bought the franchise for £1,000. There are no other businesses trading at the moment.

Respondent #9

Respondent #9 is 27 year of age and her business is a LLC which does web design; brand identity, and helps planning to start up a new business, so she also

provides consulting. It was founded in September 2008. She has a partner. In the business 3 people work full-time and a further 4 people work part time and it was the first business she has established, but she also own other businesses. They have also other businesses in PR and online marketing services. The other one is UKCIS, UK Council for International Students. They help international students to come and study in the UK. They are not charging the students anything. They never had to close a business.

Respondent #9 banks with HSBC and Barclays. This is her first business, but operates in several areas as indicated above.

Respondent #10

Respondent #10 is 25 years old and her current business is a LLC which was founded in 2011 and it is importing the LED light from China and wholesaling to the UK electrical wholesaler or some independent retailers. She has one partner who has a 20% equity stake in the business. 3 people work there including the owner.

She banks with Barclays and she has previous business from doing apparel and footwear and they were doing the business for about three years. Eventually, they closed the business because they felt the demand wasn't there and the markets were too mature. There is no other business trading now.

Respondent #11

Respondent #11 is 28 years old and her business is an online psychotherapy service that focuses on using writing as form for therapy and it was founded in October 2012 and it is a LLC. It's a pen-pal with a therapist. Therefore, it has a niche in the market. She has one other partner and the share is 50/50 and are the only people working in the business on a part-time business. It is not the first business she has

established and she also has a charity at the moment. The other business she is involved with is a charity which has been running for 2 years. It is located in Sydney and they fund grass roots initiatives around education in Africa. At the moment they have a partner in Sierra Leone; and, they are working with a non-formal school there. The charity is still trading.

She banks with the Cooperative Bank and she and a friend set up a bookstall in Portobello Market. They did baby clothes, as well but ended up going with the books, but closed it after the summer.

Respondent #12

Respondent #12 is 42 years old and she started her business in 2008 as a limited liability company in the UK. It is an online financial information aggregation service to wealthy clients. She has one other partner and its 30% owned by investors. At the moment they have no revenue yet. Yaya used her own personal funds to start-up the business. It was a response to a business opportunity where high net worth individuals don’t get adequate reporting information, when they can’t tell how much their asset base is worth. Yaya decided to investigate as to whether or not this could improve and created a system and platform, after having done several months of market research.

Table 2: Austrian Sample

Name	Age	Gender	Business Age	Education	Legal status	Partners	Sector	Location	Risk level (1- least- strongest	Main Bank	First established business	Discouraged	Applied for a loan?	Getting access to finance for your firms is..
Lukas	30	Male	2005	University Master	GmbH	Yes, 3(inc. him)+ 2 investors	CCTV software	Austria	4	Erste Bank	Yes	No	No	Easy
Rainer	44	Male	2011	Compulsory school	Sole Trader/ proprietorship	No	Graphic design/ Internet	Austria	2	ING-DiBa	Yes	No	No	Easy
Markus	26	Male	2012	Berufsschule (vocational school)	Sole Trader/ proprietorship	No	Gastronomy	Austria	2	Bank Austria	Yes	No	Yes	Normal
Hans	43	Male	2001	FH and Master???	GmBH	Yes,2	Consulting	Austria	2	Unicredit	No	No	Yes	Normal
Wolf	55	Male	2005	Berufsschule (vocational school)	GmbH	No	Trade of commercial Kitchen equipment/ ventilation systems	Austria	5	DenizBank AG (before BAWAG)	No (2 others before)	No	Yes	Easy
Christian	39	Male	2006	Master	Gesellschaft bürgerliches Rechts (GbR)	Yes, 3 (inc. him)	IT software	Austria &USA	3	Bank Austria	Yes	No	No	Normal
Johanna	61	Female	1998	Doktorat/PhD	Sole Trader/ proprietorship	No	Psychotherapy/ consulting/ Teaching	Austria	1	Erste Bank	Yes	Yes	Yes	Normal
Arnold	36	Male	2013	Fachhochschule Magister	Sole Trader/ proprietorship	No	Medien - Communication	Austria	2	BAWAG PSK	Yes	No	No	Normal
Rudolf	50	Male	1985	BHS	Sole Trader/ proprietorship	No	Accounting, controlling, business service	Austria	3	PSK	No	No	Yes	Normal
Birgit	32	Female	January 2013	Magister	Sole Trader/ proprietorship	No	Consulting	Austria	1	Erste Bank	Yes	No	No	Normal
Anita	44	Female	2008	Magister	Sole trader/ proprietorship	No	Retail	Austria	1	Unicredit (BA-CA)	Yes	No	No	Normal
Leon	49	Male	1999	University	Kommanditgesellschaft	Yes, 1	IT service and computer retailer	Austria	2	Easybank	Yes	Yes	No	Difficult
Theresa	37	Female	2007	Bachelor	Sole Trader/ proprietorship	No	Health and care	Austria	2	Reifeisen	Yes	No	Yes	Normal

BHS: Berufsbildende Höhere Schule [vocational schools with higher education entrance qualification] Magister (Mag.): Degree (Bachelor and Master: 4-5 years to complete), Kommanditgesellschaft: limited commercial partnership, Gesellschaft bürgerliches Rechts (GbR): company constituted under civil law

5.3.2. Overview of businesses in Austria

Table 2 provides a summary of the key information relating to the entrepreneurs based in Austria. In the following section the information looks at the Austrian participants.

Respondent #13

Respondent #13 is 30 years old and founded the business in 2005, which became a LLC in 2008. There are 3 partners inclusive of him and 2 investors. There are 7 full time and 3 part time workers. This was his first business he founded but he now has other businesses as well. The business provides video surveillance systems software that automatically analyses the video and to alert specifically for the high-security sector at airports, prisons and so on.

His main bank is Erste Bank and this is his first company that he founded and there are other companies he is involved with (a share in it).

Respondent #14

Respondent #14 is 44 years old and has been a self-employed web designer since May 2011 and he specializes in graphic and flash design, online advertising, advertising and programming after working for many years as an employee in a web design firm. He gets more than enough work assigned to him through a former college of his who functions as project manager despite doing something different full-time who stays in contact with the customers. Rainer additionally, has still customers from his previous job. This is his first and only business he founded.

Respondent #14 banks with ING-DiBa and this is his first business.

Respondent #15

Respondent #15 is a sole trader, is 26 years old and he founded his business in 2012. This is his first business that he has founded. 1 person works full time and 3 people are on part-time basis employed. The business is a kind of sandwich bar. They sell pizza, sausage, kebab stop almost all food.

He banks with Bank Austria and he has not established another businesses yet.

Respondent #16

Respondent #16 is 43 years old and he founded his business in 2001 and it's a Limited Liability Company. He has 2 partners. In his company there are 2 people who work full-time and there are 4 independent contractors. This is not his first business but hasn't got any others. He has a consultancy that supports small and medium enterprises and sometimes larger companies in their growth projects. His business takes a function as a coach, as a consultant of project planning, project monitoring and submission of all grants.

He banks with Unicredit and in his previous company he was actually only a business angel. He worked in the banking sector. Then he was partially partly self-employed in financial services as a consultant. He then had a share in an advertising agency and worked a bit with the management doing the controlling in the late 90s but sometime the company was not able to pay its delivery liabilities on time. Then they have sent the company bankruptcy and agreed to pay a 40% quota in settlements. This previous business experiences from business angels, consultant, business owner and management experience in controlling were the fundament of starting up his own consultancy company for SMEs.

Respondent #17

Respondent #17 is 55 years old and he is a sole trader, and founded his business a LLC in 2005. Three people work full time and one person works part time at the business which specializes in the kitchen equipment and the ventilation system for the catering industry. First he worked at a business specialising on ventilation but later on he opened his own company where he made ventilations. The suppliers from who he had bought kitchen equipment from in the 1990s ta person retired in the company who wanted to sell the company him and so he bought it which was at the time 400000 Euro in debt. When this business was taken over he could not find financing from the banks because the company was already making a loss. He used his own financing and financing from his uncle.

His main bank is DenizBank AG and he founded 2 other businesses but both of them have now closed. For the last company he had been given by BAWAG loans. One was a catering company which was founded in 1990. When he needed more money he established a restaurant, but had problems with the chef and he couldn't find a good replacement. Thus, he sold the business after 5 years and opened a coffee house but the problem was that people just drank too much alcohol so he had to resell it after a year.

Respondent #18

Respondent #18 is 39 years old and he founded a company constituted under civil law in 2006. There are including him 3 partners; one has 50%, whilst he and the 3rd partner each have 25%. Partners work full time and often outsource. This was his first business he founded but doesn't have any others. It was a software program for the management of distributed energy resources and the Electric Load Management of these decentralized energy sources that have been integrated into an electrical grid. Before

Christian has been working for a business for a Real Estate Developer for 7 years as an employee, he established another business he sold April 2008.

Respondent #18 banks with Bank Austria and he is a novice entrepreneur.

Respondent #19

Respondent #19 is 61 years old, a self-employed psychotherapist and she founded her business in 1998. It's her first firm and she hasn't got any others. She also provides psychological counseling, and clinical diagnostics which is financed by the national health insurance and also has private clients. She also teaches in the subject, with the main focuses on psychotherapy with older people and is also in Supervision and uses conventions to help her find new patients.

She banks with Erste Bank and she is a novice entrepreneur.

Respondent #20

Respondent #20 is 36, self-employed and he founded his business in 2013. His current company is the media makers and it is a multimedia agency for web, graphics, video and sound design. It is his first business and his only one. He has worked for five years for the United Nations and as he has done exactly these activities; graphic designer, web designer, video editor and privately he has had a lot to do with sound which showed that he was experienced.

He banks with BAWAG and he is a novice entrepreneur.

Respondent #21

Respondent #21 is 50 years of age and he founded his sole trading business in 1985. He has no employees. This is not his first business. Currently he has a consultancy providing clients accounting and controlling. Despite the fact that he has an

office he works directly on-site of the customer. Also he does a little training, in-house training in Excel, Accounting.

He banks with PSK and he worked at an insurance company in programming. After he worked there some time by chance a friend retired from a carpet import business with woven rugs mainly imported from Greece which he decided to take over. He has taken customers with him and he started to build up the company in 1985. That went very well until 1990-1991, when he became too small as an importer for the clients who were mainly retailers, so furniture stores, who then used the overseas buyer themselves. Therefore the business just closed. He then went towards accounting using IT support. He worked then already as self-employed as tax consultants in the work contract. The Commercial Accountant was officially in 1999. Since then, he has the business license for accounting.

Respondent #22

Respondent #22 is 32 years of age and she started to be self-employed by the end of January 2013. This was her first time at being self-employed and she doesn't have any other businesses. Birgit provides business consulting, project consulting, project management on the execution of projects, different projects, investment projects, export projects, innovations projects mainly with government funding of SMEs. She handles these grant applications. In other words, mentoring is provided from applying for funding grants until the company actually receives the grant.

He banks with PSK and he is a novice Entrepreneur

Respondent #23

Respondent #23 is 44 years old and she established her business in 2008 as a sole trader to be an educational-broker. This job didn't exist previously in Austria. She

has no partners and this is her first business. She mediates between seminars providers who are not institutionalized such as WIFI and large to medium-sized enterprises. She calls or emails the company and asks what training they need and search accordingly for the right coach. She has a network of trainers, if one is not available there is another one that might be. The other thing she does is building a database on just the correct medical hygienic reprocessing of medical devices. There is a new law in Austria, which says everything is put in care homes, hospitals, old peoples home must be disinfected and cleaned properly. Then she is also involved with Party Light and Tupperware which is in sales but only recently.

He banks with Unicredit and he is a novice entrepreneur.

Respondent #24

Respondent #24 is 49 years old and founded his business (a limited commercial partnership) in 1999 and has a partner, 2 employees for 30 hours per week and 2 part-time employees. This is his first and only business. The business model has three units: One is the computer service center for customer's computers and devices repair. Another one is on-site service for corporate customers, large companies. Since they do the entire IT infrastructure including servers, workstations, training and buy the equipment from them. They are virtually the IT department of companies. The third unit is a training center where issues are discussed by the computer.

He banks with Easybank and he is a novice entrepreneur.

Respondent #25

Respondent #25 is 37 and she founded her sole proprietorship business in 2007 and it has 7 employees. The business is an agency providing qualified personnel/caregivers from Eastern Europe that are additionally trained who help with

the household on request as well that work around the clock for old people for at least 3 months and monitor them to do a good job. They take care of all formalities for their customers and do regular check-ups to ensure a high quality service. It was the first business she founded and also the only one.

She banks with Reifeisen and she is a novice entrepreneur

Table 3: UK Sample Capital Structure

Name/ Capital Structures					
Respondent #1	Mid- 2010: Government funds	Mid-2011: Own funds and friends			
Respondent #2	2010-2011: Owners fund	2012: Owners funds, friends credit cards, over drafts(banks)	2013: Founders funds		
Respondent #3	Oct 2010: Own funds				
Respondent #4	Sep 2011: Founders own funds and Hedge fund???				
Respondent #5	Jun 2012: Own funds (savings from previous businesses) Business Partner,	Jan, April and Jun 2013 Mortgage			
Respondent #6	07/2012-02/2013: Personal Funds	02/2013: Business Angels, Family funds			
Respondent #7	August 2012: Owners fund	January 2013: University money and development trust grant			
Respondent #8	August 2013: Owners funds, credit, overdraft				
Respondent #9	Sep 2008: Owners funds				
Respondent #10	Nov 2011: Family funds	Jan 2012: Purchase sample with family funds	April 2012: Purchase more sample with family funds	June- Dec 2012: Purchase stock with family funds	
Respondent #11	September 2012: Savings from previous jobs				
Respondent #12	July 2008: Founders funds	2009: Founders own funds and partner´s savings when joining	2011 March: BA first round	2011 July: second round	2012 April: 2nd BA

Table 4: Austrian Sample Capital Structure

Name/ Capital Structures							
Respondent #13	2005: Owners funds	2006-07: Government funding	2008: Owners funding, government funding	2009: Government funding	2010: Government funding, business angels	2011: bank, government funding, business angels,	2012: bank, government funding
Respondent #14	2011: Own funds and 3,000 euros funding supported by the City of Vienna	2012: Own funds					
Respondent #15	6/2012: Private bank loan, owners funds,	7/2012: Family					
Respondent #16	2001: Own funds	2005: Own funds	2006: Bank finance and government funding	2009: Bank finance and government funding			
Respondent #17	2005: Family funds, Own funds???	2005: Generated profit					
Respondent #18	10/06: Owners funds and business angels	04/07: Business Angels	09/07: Business angels				
Respondent #19	1998: Own funds and parents funds	2003: Loan	2006: Loan				
Respondent #20	10/2012: own funds, life partner, government funding	11/2012- 03/ 2013: Own funds, government funds	04/2013: Life partner and government funding				
Respondent #21	1985: Own funds	1991: Family members	1992: Bank	2001: Bank			
Respondent #22	2013 Own funding (savings)						
Respondent #23	2008:Own financing (savings), life partner, government funding	2009-2013:Own financing (savings), life partner,					
Respondent #24	`99: Own financing	`01: Life partner	´02-´13: Own financing and life partner				
Respondent #25	2007: 5000 Euro Savings and bank loan.	2008-2013 Self-funding					

5.4. Capital structure of businesses at start-up

In this section attention centers upon the capital structures which have been used by the entrepreneurs and the three groups of finance associated with pecking order theory. In other words, funding from the founders' savings, family and friends, which are viewed as internal sources of finance; and secondly, debt finance; and, thirdly equity finance where the entrepreneurs will be required to relinquish some share of ownership in the businesses in return for their desired funding of their businesses (Brinckmann et al., 2009; Robson et al., 2013). When It came to start up finance the interviewed entrepreneurs made optional choice dependent on what finances they had available from family and friends, previous work-experience, prior businesses as well as family situation there were in and what was available to them or the required amount they needed to start up.

5.4.1 Pecking order theory

The main theory on capital structures which is used in this thesis is the Pecking Order Theory. The reader is reminded that the Pecking Order Theory assumes a positive relationship between firm size, collateral, growth opportunity and leverage while a negative one with profitability and leverage. According to this theory financial managerial preferences depend on information asymmetries and of transaction costs, using retained earnings, followed by debt, and then by equity (La Rocca et al., 2011).

The usage of informal capital in the firm´s early stage of development such as capital of the firm's owner, friends and family is the single most important source of finance for young businesses (Mac an Bhaird and Lucey, 2011). Bootstrap finance is used by founders before approaching lenders to increase the capitalization of the venture (Atherton, 2009). Personal assets are used as collateral to gain access to business debt, as evidence shows the relatively high use of debt in the youngest categories in one study

(Mac an Bhaird and Lucey, 2011). Respondent #13 from the Austrian sample from the IT software sector believes that bank loans are not an appropriate financial source at the beginning, because the start-up is too risky to a bank and they wouldn't provide the capital amount needed as he was only given even an overdraft facility after 2-3 years, but thinks that bank finance is better option for later especially when the business has a stable base and can grow further. In this sample almost all businesses use their own equity or family financing at the start-up capital structure phase.

5.4.2 Start-up finance

Attention focuses upon startup finance in the UK and then Austria and the extent to which the pecking order is supported by the evidence.

5.4.2.1 Start-up finance in the UK

Self-funded UK businesses:

In the Atherton (2009) study it shows that most participants used the founder's equity as the first preferred form of start-up finance. In this study, respondents #2, #3, #4, #8, #9, #11 and #12 used their own financing as initial financing of their new company. Respondent #9 used her own saving because she didn't need that much money for her start-up as she and her business partner were working on it as a university project when they decided to turn it into a proper business. Respondent #2 used his savings from his full time job and instead of investing it differently, he decided to develop something while also have had some friends lend him some money at some point that were his business partner. Respondent #3 also self-funded from savings he had or through money made from the business being put back in to it. Respondent #8 used for her start up financing personal funds, credit cards and overdraft because that's what she is used to using, has the lowest risk as well as she is not in a strong financial

state. Respondent #11 used as start-up financing her own funds which were savings from her previous job as she thinks it is safer and never borrowed money as she doesn't like being in debt. Respondent #4 and #12 also have used their own funding for their business. Respondent #6's business had been financed by the founders, by friends and family. Respondent #5 used a combination of self-financing and partners financing. Respondent #7 initially used money from his family when he was 14, but then every other business has paid for the next business with his own funds and retained profits as he doesn't like to borrow money. Respondent #7 also got the £1000 grant at university and worked on his side project. Respondent #10 got money from her parents as she thought that's the easiest way to find the funds and also because her parents wanted to give her the money.

Respondent #1´s business, a charity were supported by the government with a grant therefore did not use debt form or investors as they didn't need a lot investment.

5.4.2.2 Start-up finance in Austria

Self-funded Austrian businesses

Those starting-up as self-employees such as respondent #14, #19, #20, #22, and #24 where they are selling mainly their knowhow and time, didn't need a large amount of start-up financing. For example respondent #19 has already invested in herself and her business through training and respondents #14, #20, and #22 had work experience so that the start-up capital is in comparison to other project a modest amount. Respondent #22 was the only one in the sample who used the bank in addition to her own financing at the beginning.

Respondent #14, #20 and #23 didn't need a lot of financing, but took advantage of government financial support as self-employed people. Respondent # 14 used his own capital as he only needed the personal equipment as graphic designer that he had

used for his previous job. Respondent #14 also was given a discount of 3,000 euros funding supported by the City of Vienna and the first two months the registration fees have been paid. As start-up finance respondent #20 who is another graphic designer used his own finance, from his partner and a backup of the AMS (Public employment service Austria) that he doesn't need to repay. It is virtually a business start-up program that included financial support, courses, an event network and suggestions. Respondent #20 was thinking of getting a loan if the sources wouldn't be enough but right from the beginning enough money came in. Respondent #23 took her savings from her previous work earnings, some money from her husband and participated in the AMS (Public employment service Austria) business creation program which provides longer unemployed aid financing from the government. Respondent #23 actually didn't need a lot of investments at the beginning for her business as she says:

'... I work with the telephone, with the computer. There I have both times flat rates. So I pay that anyway. There were a couple of small investments. There was a printer, that can print, scan and copy as well as. I have gotten myself a smartphone; I had needed anyway, because my old phone was broken. That was it actually on investments.'

Respondent #19's long-term expensive training was financed through her own funds and family funds because she had children at home and it was very difficult to find work and she was a student. Although having worked for a few years, wouldn't finance her training.

As consultancy respondent #16 only needed financing for the office, business equipment, hardware, software, servers, first six months for working assets, of capital (about 30,000, 35,000 Euros) so he used his own money financing/savings from his previous occupation. He made a capital increase, because he took over the company and have rehabilitated, bankrupt and agreed to pay 35,000 to 50,000 Euro in settlements.

Respondent #24 was able to get a large order (organized the IT for a congress) at the beginning that helped him self-funded his start-up. Although considering an overdraft or a bank loan, it was sufficient with customers make advance payments or he has to juggle with the money that he mostly can finance the purchases. When respondent #21 was 19 years old (in 1985) he was only using his own money saved from his previous job.

Those were starting up with their own financing and in addition turned to bank finance. When respondent #22 started in January 2013 as self-employee she used her own finances/ savings, and sometimes an overdraft with interest. The infrastructure was already in place as she joint partner with those she worked for 5 years and only needed some hardware, software, and some small investments (respondent #22). Respondent #17 had his own financial resources, his savings at the very beginning which he thinks it is the best to use his own money, plus his uncle gave a little for the company, which he has now. He bought the company it had a balance sheet loss of EUR 400,000. The banks did not want to give him money. Respondent #15 used a private bank loan and his own funds to start up. When they realised that this is not they were supported from relatives, eventually he took a loan.

Those starting up bringing technological products on the market often need large amount of financing in their start-up phase for the research and development of the product such as respondent #13 and #18. Respondent #13´s business starting financing is funded by various funding bodies: Inecum provided financing, AWS a grant and at the next step they have received from the AWS a conditionally repayable grant, which is repayable only in the event of a profit and no interest rate. Then respondent #13 got research funding, which is always divided between grant and loan and further funding from other bodies. Respondent #18´s business used their own financing and a business angel because they showed initial interest in their project to develop a software program

and had a project with respondent #18´s partner and therefore had full confidence in them. It was also a bit too early for venture capital, because the product was not mature enough and they would not have gotten any bank financing.

'He's actually approached us and said don't you want to do this? We have told him about it. He was so excited. He has already had a project with my partner. This means, he has already known him well. He knew how he works. He simply had full confidence in us and said I want us to do this. So it was almost more of his initiative as from ours. We have told him about it. He then said, let's do this.'

In the UK as well as the Austrian sample the participants used mainly as start-up finance, their own and family financing therefore mostly following the pecking order. In the Austrian sample it is apparent that some start-ups are able to be partly funded by the government with financial aids from e.g. the AMS, to support self-employment in addition to mainly using their own resources which was not in the case of the UK samples. In the UK sample only one business which is a Charity was able to receive government funding. The next section will focus on the whole capital structure beyond start-up financing from the UK and Austrian participants.

5.5 Capital structure

Most entrepreneurs used their own finances and their family's money when possible at the beginning when starting-up their businesses as it is argued by the Pecking Order Theory and shown in the majority of samples. There are different financial choices depending on the access to finance for the business of the financial choice and suitability. Regarding capital structures from the startup phase to the maturity (business life cycle) La Rocca et al. (2011) argues that in industries the strategic financing choices of small businesses, show the existence of a life-cycle pattern is consistent over time among different industries and institutional contexts. While Degryse et al. (2012) argues that SME capital structure exhibits both significant

inter- and intra-industry variation nevertheless, different industries show support for the pecking order theory for almost all industries, with the exception of the catering and leisure sector, where more profitable firms have larger debt which is in line with the trade-off theory (Degryse et al., 2012). In this sample most businesses follow the Pecking Order Theory with some anomalies (capital structures not following the Pecking Order Theory). As not all samples have gone through their business life cycle and some of them just starting up it is difficult to say whether more anomalies later on will come apparent. In general, what does become apparent is that Austrian businesses take advantage from government financial reduction, funding, support etc. This suggests that the government in Austria which is a bank-orientated country has also a very strong government support system in for of finance as well as discounted support such as consulting for SMEs paid by the government and a reduction of fees. In the UK sample parents become as important financial startup aid and retained profits from previous businesses have shown common.

5.5.1 Capital structure in the UK

Respondent #9's capital structure is a very straight forward one. She didn't need a lot of financing for her business and the amount she needed she used her own and her partners funds/ saving and she was also always supported by her family for her business. As she easily can reinvest her generated profit into her business she didn't need a loan and hasn't even considered other forms.

Respondent #11 used as start-up financing her own funds which were savings from her previous job because it is safe. Respondent #11 hasn't considered any other form of finance. She only uses her own money for her start up and is not planning to raise equity finance, venture capital or business angels.

'I can't see it; I can't see the need to consider it. But if I had to or if it worked out as more profitable, I would. The only way I would consider investors is if they provided more than financial support; if they were going to have input into the business.'

She probably considers money from family and certainly, grants as financial sources in the future.

Respondent #10 always got money from her parents as it was the most convenient way and her dad is a successful business owner. They considered other forms of finance as well to improve cash flow, e.g. the manufacturer to give them good credit terms.

They also started thinking about invoice discounting from some financial companies. However, they are mainly growing their business using generated profit. Respondent #11 doesn't like the idea of venture capital or business angel, as they don't want to give a share of the company away. This suggests that these business owners their capital structure will remain at the beginning of the Pecking Order Theory using only internal capital.

Respondent #1 also didn't use debt or investment at the beginning; he started off with a grant from the Government. He explained:

'So we looked at a range of options. I think we started off with a grant from, essentially from the Government, really. A four figure grant that was the first thing we looked at. We wanted to decide what would be most flexible for us at an early stage start up. .....We didn't need that much investment to make it work, to start with. We felt that we could make it sustainable without necessarily growing significantly, without any further investment at this stage. So we've been running for about three or four years now, four years, and it's not the sort of organisation that requires large amounts of funding to operate, so that's why we haven't really taken it any further.'

They didn't need that much investment to make it work. Respondent #1 stressed the fact that he did not consider at this stage raising equity finance from a venture capital firm or business angel by saying:

'No, not at this stage. I think we would look for a larger scale grant before we would do that if I'm honest, or perhaps a loan but not Angel investment.'

Respondent #1 would consider it in the future but he wouldn't say that credit cards and loans from family wouldn't be his choice. Michael would look initially to a larger grant or a loan of some kind or look for some kind of Angel investment.

Respondent #8 was using anything easily available for her start up financing such as personal funds and credit cards and overdraft as she hasn't got a lot of money to herself. Respondent #8 has considered other forms of financing e.g. from family because she is close to her family. Respondent #8 considers as financial sources in the future her brother or her mum. After that probably she would consider a bank loan. Or Government funding would be a definite. Respondent #8 doesn't like the idea of using VC or Business Angels.

Successful reinvesting Serial entrepreneurs

Those who were successful serial entrepreneurs used their own financing such as respondent #2, #3, #4, #5, and #7 from their previous businesses. In some cases it can be argued that the serials entrepreneurs capital structures starts with the first business and continues into the following businesses as the previous businesses were the main influences on respondent #7;s capital structure for his Web Development business is funded from retained profit from his previous businesses and he also got the £1000 grant. He started his first business with his pocket money from his parents. He is also considering only other financing such as investment venture capital and angel investing, which they are pitching for at the moment on several businesses. He would go for

venture capital, but it's just usually venture capitalists want to see a lot more traction that what they have currently. Respondent #7 thinks that they are life cycle stage for business angel money or very early stage venture capital money. He would consider both VC and BA for the future but wouldn't consider other financial sources.

Respondent #5 started to use finance and that from his business partner. A bit later they got bridge loan/mortgages for a very short period at the beginning, but they charged around 14%. He got good credit from just work experience, getting credit cards, paying them back. For his other businesses, he didn't concentrate so much on going to the bank is because he believed more in getting investors. They did advise in certain things and therefore were not silent partners he valued their opinions. However, he always had more than a 50% stake, divided between him and his partner, so they always make the final decisions. Respondent #5 prefers investors to banks because if anything does go wrong, it won't affect the credit so badly. He explains:

'You see, with a bank, not that you have to obviously give money back, you also have to pay a lot of interest and it all adds up. I don't see why… When you have good investors and they put their heart and soul into it, I don't see why I should go to the bank. If anything does go wrong, it doesn't affect your credit as much.'

He didn't consider other form of financing as he was happy with the BA investors. He met mainly through contacts that are recommended. So far he only used BA not VC because he prefers business angels as it's more personal but sees VCs as a possibility.

<u>Not following Pecking order</u>

Most UK businesses in this sample do not follow the Pecking order. Despite starting to finance businesses with their own finance such as savings and family financing, their capital structure is followed by or considered Business Angels and VC

rather than debt finance in the UK, which is very different to Austria. Respondent #4 did not consider raising equity finance from venture capital or business angels because the business doesn't have the kind of traction or scalability that a typical VC would want to go for. Respondent #4 would consider using venture capital or business angels maybe in the future for another

Respondent #4 always decided to use his own funding for the business because he had it. Other financial sources he is considering is peer-to-peer lending, deposit backed schemes, because

'I think that they're an excellent way to grow a small business without losing too much equity or, more importantly, without scaling too quickly I think. VCs and [tech] companies you need to have a team of people, which I couldn't [really deal with, we don't need it] at the moment.'

Respondent #3 didn't use any external funding for all three businesses. They have been all self-funded from savings respondent #3 had or through money made from the business being put back in to it. They rather get it from a Business Angel who can provide some mentorship as well. They looked for funding last summer but couldn't secure a deal as the only could get £50k but wanted somewhere closer to £100k. Respondent #3 would consider using Venture Capital funding or Business Angel funding but only in the farther future:

'I think out of the two we'd consider Business Angel funding if we got the right deal. I don't think we'd be ready for Venture Capitalists yet, not for, maybe a couple of years or so at least.'

Respondent #3 would also look at government grant or a loan if something was on offer.

Respondent #2 used his savings he has been putting aside as he was working full time as well. Also have had some friends lend him some money at some point. But it is

himself and his business partner. They consider other form of finance such as going for proper investment,

'Even now, we are considering going for proper investment, maybe going for a 50 or 100K round. But the way the business model is designed as such, that you do not really need any cash. The only cash that you need is marketing costs. So it sustains itself..'

The financial sources used in the future depend really on additional investors offering. Maybe someone privately invests they might go to firms like AXM VC.

Respondent #2 doesn't like using BA and VC and explains:

'...because I know that I am working for it, and ideally, I would not want to do it. But given the situation, if the expansion happens rapidly, we will just simply run out of cash flow. If we run out of cash flow, then you will have to close down the business, so, yes.'

Respondent #6 financed his business, with friends and family, and Business Angels.

'The reason we did that is so that we could maintain control of the business. We could manage the growth, and we could have the best return on investment for all the shareholders.'

They have looked at major council firms mainly to help scale and reach a global audience, because of their contacts. Respondent #6 considers raising equity finance from venture capitalists and Business Angels. He would mainly consider using Business Angels in the future, because it's the most convenient form of capital. Respondent #6 considered for the future probably more venture capital, potentially Governmental grants, that sort of thing.

At the beginning respondent #12 used as start-up finance her own personal funds and then 2 years later used BA as

'...Business Angels are the most logical for a start-up. They have the freedom to choose quickly whether they invest or not. Venture Capital companies look for revenue generating companies, so they were not an option.'

She would consider using Venture Capital or Business Angels and would consider other financial sources in the future: Family Offices, a group of Business Angels or a family, as that's the market that they operate in. Business Angels is probably the most logical thing, because our product is targeted at them.

5.5.2 Capital structure in Austria

Respondent #24 had a large order when he organized the IT for a congress at the very beginning of his career. With this money that came in he founded his company. He was also thinking of using overdraft or a loan from a bank. But doesn't really need to because he can ask for advance payments or simply juggle with the money so he can afford the purchases.

'But actually I did not had to, because I've just in my branch where I have to buy for customers, I simply demands that customers make advance payments or I simply juggling with the money. So what I always do. I always have to juggle with the money that I can mainly finance the purchases. That's the big problem that I have: financing purchases. This means, sometimes the employees get the money a week or two weeks later. Wages are paid just a bit later. In very tight constraints, then I have asked family members for money, which I have borrowed short term.'

He thought about using investors, but doesn't like the idea of them being involved in the decision making process. Respondent #24 has some projects such as expanding the training center and can imagine to borrow Euro 10000 from the bank.

Respondent #25 started with her own funds because she didn't need a lot of funding. She only needed the financing to pay the first salaries of the employees after

that the whole business is financed by the profit. She also used a bank loan for security. She would consider the funding of the Austrian Chamber of Commerce in Vienna. Respondent #25 hopes that the business will grow using its own finance from its profit. She also can imagine to use bank financing, but probably would not consider investors.

Respondent #14 used his own financing as not much capital was needed and received about 3,000 euros government funding from the City of Vienna for startup companies in form of discounts when starting up and for 3 months he didn't had to pay social insurance. Also the first two months have been co-founded and registration fees have been funded as well. He is self-funding him with the money from his business. He did not think about considered other forms of financing because he doesn't need to at the moment. Should that change then he may think about other financing.

Respondent #23 took her savings from her previous work to start up at the beginning, also money from her husband and participated in the AMS (Business start-up programme) business creation program. That means you will get longer unemployed support from the government and also additional money for being unemployed. I didn't really need a lot of financing at the beginning because she works with the phone and the computer and therefore only small investments were needed. Anita can imagine to use investors if the company grows in future although she likes to stay small and wants to keep fix cost to a minimum.

Respondent #22 financed herself through savings and needed partly an overdraft with interest as:

'As I say, the investments again were not so extremely large, where it would payoff to get a loan now or even to complete the whole processing and even to get a loan. Then, that would have taken more time.'

She may consider investors after the business grows, bank loans, long term loans, investment loans or just maybe grants, non-repayable grants in the future.

When starting up respondent #17 had only his own savings, which he thinks is the best and his uncle gave a little. For the last company he had been given a BAWAG loans. For this current company bank loan is difficult to get, as he bought the company, with a EUR 400,000 deficit which he took over when a person he knew retired. They said that he doesn't need to apply therefore he has not applied. So he used his own financing and financing from his Uncle. He has repeatedly considered other form of financing to develop his business as he needs staff for example banks financing but couldn't get it but needs money. He considers all kind of finance also venture capital but can't find any who have confidence in him. When someone has 100,000 euros saved, the person is afraid to lend it to him as it is risky. If someone has 40,000 euros he offers 3000 per month.

He once applied for Austrian funding, but he only got too little offered and didn't applied anymore. He would also consider other financial sources as he needs money as he has new ideas.

Respondent #20 has used his own and his partner´s financing to start up as he doesn't have to pay interest, unlike a bank loan. He also got at the beginning a support from the UGB, the AMS (Arbeitsmarktservice). He also showed that he has experience as he has worked for five years for the United Nations doing exactly these activities: graphic design, web design, video editor and privately worked with sound. It is a business start program with unrepayable financial support, courses and events network and suggestions. The Chamber of Commerce provided him with a Business lab. He was thinking about taking out a loan if his own resources are not enough but they were as he has enough customers' right from the beginning. As the company is too small he is not thinking at the moment of investors but maybe in the future.

'I must never repay it. It is practically a company start-up program and I got not only the financial support but also courses and network events and suggestions. The

Chamber of Commerce also has very actively supported me…. Business lab, I think it's called. Where the own company itself is illuminated and worked on the company.'

Respondent #16 used his own financing which were savings from his previous occupation. As a consultancy, he didn't need so many assets. He made a capital increase from 35,000 to 50,000 euros, because he has taken over a bankrupt company and has refurbished it. For IT investments often leasing were used, because this can be very well represented as a rental expense in daily business operations. A larger investment was financed with a bank loan when they moved into a larger office and renovate in 2006. He also takes advantage of government funding support for new staff training as consultancies have nowadays 3-10 employees. Respondent #16 uses retained profits/ cash flow to refinance them. Pay taxation sometimes a bit later the turnover tax etc., to take advantage of better cash flow. So venture capital and business angel does not bring anything for his company as he doesn't make such a high return. Financial resources in the future for his company: retained profits, bank, friends, funding.

Respondent #15 used a (private) bank loan and his own financing but realised that it wasn't enough, therefore he asked relatives for help but eventually they took a loan. At the beginning he was thinking of asking for government funding but at the end they were told that didn't qualify for the funding. He always wanted to be independent, and therefore doesn't like the idea of investors as he finds it particular for new companies very risky. In the future he wouldn't give shares away, only to relatives, or someone he knows very well. He prefers his own money also for the future as financial source.

Respondent #19 started with using her own finances and that from her parents to pay for her very expensive long time training because

'I had no other option. As I had still children at home and it was very difficult to find work. In fact I have worked once for a few years, but it wouldn't have financed the training. '

She didn't consider any other form of finance because she was a student, wife, mother with no income she wouldn't get them. Johanna would use overdrafts that she uses over and over again anytime she finds it necessary. Credit cards are more for short-time financing and those options are sufficient enough to her. Respondent #21´s Startup financing in 1985 was savings from his previous employment was reinvested into his start up as it was the easiest option with no interest rate. The only time he considered using other sources of finance was in 1987, 1988, he has looked at had a larger warehouse and thought to invest a little. He thought about using debt financing. But the negotiations weren't going well and it wasn't happening in the end. He is planning to grow by adding one employee at around the last quarter of this year 2013, first quarter of next year. He is thinking maybe to franchise the business and maybe use investors. In the future he is mainly considering using his own money and it makes mostly sense for his business at the moment.

Respondent #13's company is very strongly supported by various funding agencies, because they are very research-based and need to invest in research.

'Government funding, because we on one hand are very research-based; meaning, we have to invest into research as well. And in particular in Austria there is a very good funding landscape, were it was for us quite simply as well, able to raise funds. The decision to include Business Angels was actually a strategic one, because they have opened a better market entry for us.'

So company is very strongly supported by various funding agencies. Starting at the beginning Inecum provided them a bit with financing through the AWS, where they got the grant. In the next step we have received from the AWS a conditionally repayable

grant. This is a grant, which is repayable only in the event of a win. But so also has no interest loan character. Then they get research funding, which is always divided between grant and loan, and still further subsidy from other funding agencies. That is, highly financed by subsidies from the beginning. They used purely strategically business angels that give them better market access. Respondent #18 used his own financing and business angels as start-up financing as they wouldn't have gotten bank finance for the development of a software program. It was also a bit too early for venture capital, because the product was not mature enough yet. Business angels approached them and they told them about their new project. As the BA has already had a project with his partner they had full confidence in them and were very keen to invest.

'We had own capital and a business angel for financing. It was about the development of a software program. We wouldn't have gotten any bank financing for it. It was also a bit too early for venture capital, because the product was not mature enough yet. The only option we could see was by means of a business angel and equity.'

He didn't thought about using other forms of financing for the project at that time as the BA was immediately involved and therefore there was no need for other financing. He would use a venture capital firm or angel investor in the future or depending on the circumstances which financial sources is most suitable.

To sum up, the samples show that the Pecking Order Theory provides only a partial explanation of new venture funding pattern which is consistent with Atherton's (2009) results. Several different patterns disclose new venture financing strategies preferences by funders such as using government financial support early on such as in Austria, or using overdrafts such as in the case of respondents #19, #22 and #8 (mothers which children who started up as self-employed). Company financing strategy may be

determined by the founder on their individual personal financial, social, family, geographic, life situation.

A range of local factors may influence capital structure especially to each firm and their interaction with funders and their preferences as well as the policies. In Austria government funds and owners saving tends to be a common combination and bank loan are more often taken into consideration and used for startups, while the UK participants use their own finance and more likely investors, which is a reflection on the UK local framework. The capital structure is formed by what is available to a certain firm owner in a certain geographical location. This suggests that patterns of start-up financing are exist for the funder general framework as well as founder experience and therefore specific local contexts and conditions for each new venture´s funding decisions strategies are created. In a bank-oriented country such as Austria research shows that government funding plays an important role for start-ups and that bank relationships are extremely important for capital decisions and fundamental for business activities in the early stages. While in the UK BA and VC is commonly used early on.

In this sample of 25 used their own financing at the beginning except one which is a constituted charity (respondent #1) who used government funding. Only respondent #8 used bank products combined with her own finance from the start phase in the UK sample and in the Austrian sample 3 combined government support financial and one combined BA with their own funds. Also, founders may acquire a variety of different sources because any single source was not providing enough capital**.** Some of the serial entrepreneurs were able to use their experience and reinvest from their past businesses and where in a better financial position and found it easier to access finance than those who just starting up their first business.

Financial structure for high tech and innovative firms

Business Angel investment was only evident in 4 of the 25 start-up ventures in this research and only one of them had investors from the beginning. All of the businesses were in high tech sector. Collateral is particularly necessary for high-technology entrepreneurs whose firm assets are predominantly intangible ideas, copyrights, licenses, or patents and not beneficial to collateral-based lending (Elston and Audretsch, 2011). However, banks are able to employ these assets in their lending decisions as research shows that intangible assets (10.08 percentage point increase in the ratio of total debt to assets) and net debtors have a positive effect on the long-term debt (Degryse et al., 2012). High growth firms and firms with fewer tangible assets have a lower debt ratio (Heyman et al., 2008). Brinckmann et al., (2009) found that a considerable proportion of new technology-based firms are generally able to finance their growth through operations. This is consistence with the preference to use internal over external funds (Elston and Audretsch, 2011).

5.6. Attitude to bank loan/finance

The literature notes that the relationship with the bank and entrepreneurship is influenced by the regional system as well as differences have been found in human capital such as *gender*. Literature has shown that the smaller loan size of women-owned businesses relative to businesses owned by men show a difference in attitudes towards external funding, especially debt funding (Treichel and Scott, 2006).

Regarding bank relationships, differences can be found between the Anglo-American market-based system and the Continental European system as relationship and bank-orientated system (Lehmann and Neuberger, 2001). The bank relationship matters as it improves in strength over time (Madill et al., 2006) and in a borrower's decision whether or not to apply for a loan (Chakravarty and Yilmazer, 2009). In the

samples it becomes apparent that the attitude to bank lending is already influenced in childhood and how they have been raised.

5.6.1 Attitude to bank loan/finance in the UK

In the UK sample many pointed out the strong influence of their upbringing in related to bank finance such as respondent #12, #7, #8 and #11. Respondent #12 for example thinks that her decision regarding financial sources is influenced by the way she was raised to only spend what she has and therefore she says ‘a bank loan isn’t in my psychology’. Respondent #7 believes he was also influenced regarding applying for a loan by the way he was brought up and his environment at a very early age by family and friends; therefore he just doesn’t like borrowing money. Respondent #8 thinks that she probably got this from her family:

`It’s the way I’ve been brought up`

Her mum’s very much into paying everything off straightaway. Respondent #11 (UK) thinks that attitude to finance goes back to a much bigger picture of cultural values and also believes that females tend to take less risks and be very cautious in business.

Some noted that they didn’t like the idea of borrowing money from the bank based on their feeling and attitude they have towards it such as respondents #7, #11, #9, and #5. Respondent #7 really doesn’t like the idea or feeling at all of owning money to someone while interest rates don’t bother him. Respondent #11 doesn’t think it's something that she doesn't think she'd ever, personally, seek.

‘I see it as having to pay back more; it's not really great value for money unless you really, really need it. Why choose to pay back with interest when you can save the money up yourself? Again, I think that goes back to a much bigger picture of cultural values and that females tend to take less risks and be very cautious in business.’

Respondent #9 wouldn't recommend bank loans to anyone as she doesn't like interest rates, thinks there are hidden terms and conditions and customers are put under pressure to sign on the spot therefore she does not trust them anymore. Respondent #5 didn't feel he needs bank finance as he can get business angels and believes they can bring a lot more to the table than just a loan: experience and motivation from other people. Steffen tried to avoid loans from the banks:

'Why do you want to spend money that you do not have?'

They were able to finance it themselves and respondent #2 thinks that the system is there to help them to get finance for free and then bank finance is not needed, but thinks it is necessary for the overall economy and on macro levels.

Some attitude in the UK sample was that the bank is an untrustworthy institution. Respondent #3 thought bank loans wasn't for them,

'I think I went through most of it. But, in general, I think there are other sources of funding which are worth more value, whether you crowd source the funding or you get an investor or through family and friends and stuff. I think they are all better options than the bank.`

He didn't think they will get a loan, he doesn't like them as the climate is untrustworthy, thinks better options exist and not too keen on the terms and conditions, rather gives equity away than have to get a bank loan and pay back the interest. He explains:

'But I think my mindset was always that I don't want to go down a bank loan road and I'd rather give away equity in my business for a larger sum than have to get a bank loan and pay back the interest and all of that.'

Respondent #6 says:

'Well banks make money from lending. They don't make money from people saving stuff. So yes, I do not particularly want to support that kind of activity, especially since the history of it I guess. Well banks have been aggressively lending, that's how they make their money. A lot of people lose out because of that, especially if they attach possessions to their loans, things like houses and stuff. So that's quite a serious matter.'

He thinks it is evidential that banks are unethical and untrustworthy.

Some argue that bank credit is dependent on situation. Respondent #5 thinks that bank lending is depending on the situation, can be beneficial for businesses if it is in a good position and be a disadvantage if it doesn't. He explains:

'I think bank lending has a lot of downsides as well as good sides. If the business works, okay fine, fair enough. If it doesn't – if it goes bankrupt, there's a lot that you lose out, i.e., your credit especially. Your credit will take a big stumble. The interest can be very high. Also there are a lot of hidden charges. They don't clearly tell you at the time. These things can kind of put you off, subconsciously.'

Respondent #1 also thinks that bank loans suits some businesses rather than others; proportional to the assets of the business, to the planned growth of the business in accordance with the business plan and needs carefully a lot of planning and thought with fellow directors before decision can be made. However, respondent #12 thinks that bank lending doesn't work for start-ups:

'I think bank lending only works for certain types of businesses at certain levels of the maturity of the business. It certainly doesn't work for start-ups. Where there is a revenue generating company and it becomes a cash flow issue, then a short term loan is probably quite useful or manufacturing. I would still recommend against it, but I don't even know if banks do short term lending anymore, because they take so long to issue

the loan. So I think it only suits companies where there's orders on the books and you know that you can pay back your loan.'

Those positive to bank lending in the UK sample were respondent #4, #10, and #8. Respondent #4 sees bank lending as a very positive thing, but for other people it's a complicated topic. He thinks that in the current financial climate it's a challenge for the banks and believes people have a negative view of banks is not because of lending it is because they have absolutely no idea about the capital ratios banks have to hold to comply with Solvency II, and why banks can't lend more money. Respondent #10 said that she just wants to find more information but they haven't applied for the loan yet, but they have a positive feeling about the bank loan. Respondent #8 thinks that the bank is probably the first considered option.

'I'm just thinking towards bank lending. I think most businesses at a certain point need financing. I feel your bank is probably your first considered option that you feel is safer. However, I think especially with the recent depression and things, most people would probably look around to see what other options are around. I think that would probably be my attitude to finance in general, but I'd have to really have a good knowledge and understanding of it. I think I'd probably still be wary of anything that wasn't – banks are actually regulated to a certain point more, perhaps than new ventures that have recently come out. Like the Wonga.com that I've recently heard about.'

5.6.2 Attitude to bank loans/finance in Austria

In the Austrian sample those who saw bank lending as negative saw it as a burden such as respondent #14 despite in some situations there is no other option and its ideal if someone needs financing. Respondent #14 would first rather try to use his own financing.

'.. a bank loan is for me more some kind of a burden. But of course in certain situations there is no other option and it is of course also ideal when one needs finance. I would just always prefer at first to try the whole thing with my own funds. Like I said, in my case it was not necessary to fall back on bank loans'.

Respondent #15 also doesn't like bank loans; despite that a loan can always be needed in his opinion it should be the last resource. He explains:

'Personally I don't like bank loans at all. Because, as I have already said, a loan can always be needed, but should be used as last choice. Because as I have said, the interest rates are not always so well correctly estimated. Because the interest rates are really high.'

Respondent #23 believes that the interest rates often change in the current economic climate, often are too high for the pay back and it is just expensive loaned money. Respondent #20 personally wants to make more secure decisions and is not prepared to take risks and therefore wouldn't take out a loan despite seeing that it was very useful for one of her colleagues who started up with little of her own capital. Respondent #19 thinks that bank loans are too easy to obtain when you have an income and to get into debt, and therefore she doesn't want a loan if it is not necessary.

Respondent #21 explains that bank loans nowadays are more difficult to get due to higher security requirements than before Basel which therefore is relatively expensive especially for micro-enterprises. Respondent #21 says that the credibility of banks was lost.

'Fundamentally in an interesting way to implement things, to make interim financing, to reel in larger projects. That what is for me a bit got lost in the meantime, is the credibility of the bank's on one hand. On the other hand, also the credibility of very many companies. So I notice that even with the client, which I partly supervise the

part where I think to myself, the reliability or the consequence is rarely taken by people anymore, but there will always be the blame pinned on someone else.'

Respondent #21 noticed that even his clients he consults, the reliability seldom are taken by one individual and rather is reallocated somewhere else.

Respondent #22's attitude towards bank and bank loans is dependent on the bank loan officer and the relationship with the bank loan officer, how the bank acts towards her and what the relationship is like between them, because she made already experiences when someone is a customer for many years that it is easier to get a loan.

Respondent #13 sees bank financing more positive than before because they finance start-ups now too. Respondent #17 sees bank loans as a good thing, but points out that:

'..when your documents are all right, when you have a good concept, when you make an application. Then the bank sees it all, then they say immediately yes. When you don't have a good concept, if you can't any then you need a broker'.

He believes that a loan broker is needed who take commission and a good broker does any loan, makes sure you will get the loan and knows what to say to the bank.

Respondent #21's view on bank finance/ loans is that it is a way to implement things, to make temporary or also known as bridge financing and land bigger projects. Respondent #16 believes that a bank loan…

'...is a needed tool at in the right time at the right phase of a business to realize an investment project, and a good business for both parties. Because buying thereby time as business owner to realize business project earlier and the bank earns money from thereon which main job is to provide the economy with financing. '

Respondent #18 thinks that bank loans can be a positive thing depending on the situation, conditions (it can be an inexpensive way of financing), depending on the Collateral Requirements, and interest rate. He points out that negotiating is an essential

way of keeping the cost low if you meet the right people there can be a lot of flexibility with the banks. He explains that:

'Bank loans are a type of financing that makes sense under certain circumstances. It can be a cost effective way of financing. It depends on the condition. It depends on the maturity. It depends on the Collateral Requirements. It depends on the interest rate. It can be a very positive thing. It can also be a thing that can cost a business lot of money under the wrong conditions.'

Regarding the bank loans respondent #18 believes in the flexibility of banks and highlights the importance of bank relationships and negotiation skills:

'The banks are with their conditions, you must really heavily negotiate with them. From what I've noticed from other companies where I've worked, where we have also used bank loans. It is clear that they can change their minds. That costs that seem non-negotiable at the beginning, can suddenly be substantially reduced at once. Despite, although they appear relatively rigid.... So when you get to the right people, that there can be much more flexibility with the banks.'

Respondent #24 sees it as a positive financial form, where he expects to get more than from his family and to spare them he rather goes to the bank. Respondent #25 believes that it is …*'good if you don't need a bank loan, but it is good that there is the opportunity to take a loan. A bank loan can be a great burden in someone's everyday life as it has to be paid back. That is namely not so nice. But if you can get a lot of money at once and you can't otherwise, is it also very sensible.'*

5.7. Discouraged borrowers

The literature notes that discouraged borrowers may show gender differences due to different business activity and financial patterns (Sena et al., 2012; Chakravarty and Xiang, 2009; Chavalluzzo et al., 2002; Freel et. al., 2010) and expect that they

would be turned down (Madill et al., 2006). It is suggested that the fundamental influence of gender affect the entrepreneur's actions and experiences (Marlow and Patton, 2005). Madill et al. (2006) points out that this is the case due to the fact that previous analyses of gender effects on loan application rates have not allowed for size, sector, or other potential determinants of loan applications. While also Sena et al. (2012) found that men are a bit more likely to approach external funders than women, Coleman (2002) found that women were not significantly more or less likely to apply for or to obtain a loan. Arenius and Autio, (2006) study on businesses in the business service sector, men and women business ownership show a lot of similarities regarding to how they finance their businesses. Therefore, gender as a variable influencing discouragement may be significant but only of its correlation with other important variable (Arenius and Autio, 2006; and cited Freel at al., 2010; Verheul and Thurik, 2001; Marlow and Patton, 2005). Respondent #11 (UK) thinks that females tend to take fewer risks and be very cautious in business.

The literature suggests that Socialisation, self-rationing mechanism and the relationship with the bank influence discouragement. Socialisation theory argues that women are more likely to be discouraged to apply for bank loans due to lack of self-confidence in their own entrepreneurial capabilities, lower propensity for risk, preference to stay in control of their business, perception that borrowing creates higher risk and although it has been argued that it does not appear that lenders discriminate against women (Verheul and Thurik, 2001). Gloria (UK) thinks that attitude to finance goes back to cultural values therefore females tend to take less risks and are very cautious in business. Discouragement has also been identified as having a positive effect as it has a self-rationing mechanism, discouraging bad and riskier borrowers. Discouragement, as a self-rationing mechanism, is more common in concentrated

banking markets because, in these markets, risky borrowers are more likely to be discouraged (Han et al., 2008).

5.7.1 Relationship of discouraged borrowers with banks

Madill et al. (2006) found that male-owned businesses are significantly more likely to have longer business banking relationships (Coleman, 2000) and are benefiting more from stronger relationships for business borrowers than are women. SME owners with longer banking relationships are less likely to be turned down for credit and those business owner that does both business and personal financing with the same financial institution has stronger relationships between the two parties (Madill et al., 2006). Respondent #22 (A) experienced what is important is the personal relationship…*'but also, as said, how long you with them and also how the turnovers are and how they see, how the business develops or simply just to have a good relationship'.*

According to Chandler (2010) and Bonnet et al., (2009) argue that discouraged borrowers have highly developed relations with banks. On the contrary, Chakravarty and Yilmazer (2008) argue relationships between businesses and financial institutions increase the possibility of firms to apply for a bank credit. Regarding the relationship length when compared with applied firms, discouraged firms have shorter relationships with their primary sources (Cole, 2008; Chakravarty S., Xiang M., 2009).

5.7.2 Discouraged borrowers in the UK

Some didn't feel discouraged as they felt if they needed a loan they would try and apply anyway as they had nothing to lose. While some – respondents #4, #6, and #8 don't think that the fear of rejection discouraged them to seek for a loan. Respondent #9

also said '*No, never'* did she feel discouraged and added *'If I apply for something I will get it.'* Respondent #3 didn't apply for a loan for his businesses because…

'The first [business] went well, so we didn't need to consider it. The second one was failing so badly that we thought even with the loan it wouldn't work, so we just closed that.'

They closed the business and didn't apply for a bank loan due to the fear of rejection but mainly also a fear of actually getting it. In his current business he didn't consider applying for a loan yet. Respondent #10 has felt discouraged to apply for a loan for all businesses in the past:

'Well, firstly, we couldn't find too much information about the loan. Secondly, because, maybe, it was our first business and we felt, maybe, too good to be true for applying the loan.'

Respondent #10 felt discouraged in applying for a loan but then they got a template of their business plan and they also spoke their bank's business manager and they felt okay. Respondent #10 used as alternative routes of capital structure when she felt discouraged only finance from family.

5.7.3 Discouraged borrowers in Austria

Respondents #23, #14, #25, #20, and #18 and were never discouraged borrowers. Respondent #20 didn't apply for a bank loan despite being encouraged by the loan officer he thought he got enough resources because:

'Not that I will be rejected, but that my business would be looked into and then the bank intervenes in the start-up business. Also that the bank says then, ok, so for this idea you won't get any credit….because you also have to present them with a business plan and a calculation plan. Then the bank would have said, then only specialize in web design, then you get a loan. That's the fear I had for example, maybe ungrounded.'

Respondent #18 hasn't been discouraged as he would have applied anyway:

'..even when I had thought maybe they won't do it, I still would have tried. '

While respondent #16 never felt discouraged, because he comes from the banking branch/sector and did many conversations with clients when he worked at the bank as bank assistant.

'But I have noticed many, many clients who were discouraged to audition at the bank. Because it is exactly like this that you are pleader and you simply are depending from their decision.'

The fear of rejection didn't ever stop respondent #22 to look for or apply for a bank loan for her business. She realized that the final decision is made by the bank officer when she applied for a personal mortgage and that in different branches different decisions are made which suggests a stronger relationship between the two parties (Madill et al. 2006). Rudolf was never discouraged and even applied for bank loan despite fearing his application will be rejected for his businesses, he believes:

'That's where I am persistent enough.'

Bank assistants tried to influence or discourage his decision to apply but were not successful. The banks never told him in advance whether respondent #21 will get the loan or not. Respondent #13 didn't feel discouraged to apply for a loan due to emotional reasons or fear of rejection but simply rational reasons.

Respondent #15 discussed the decision to apply for a loan for a loan with his wife. They were all hopeful that they will get the bank loan as it was the last option. At the beginning before respondent #15 applied for a loan bank officers tried to discourage him as they told him that he will be unlikely accepted. Respondent #15 believes they look at the income firstly and when they saw his income, they immediately told him at

the bank that he probably won't get the loan, but he didn't give up and he got the bank loan at the end. Despite he was:

'Discouraged. They have said, it will be unlikely to be accepted, because I believe, the employees are firstly talked to… I believe that they look first at someone's income and then immediately corresponding comments are made. When they have seen the income then they immediately said that it will be difficult or it could be that it won't be accepted. But subsequently it got accepted.'

After the bank officer told respondent #17 to declare bankruptcy instead of applying for a loan he had by this bad experience and also provoked by the female bank officer. Respondent #17 explains when he only needs a 30.000, 40.000 Euro bank loan to take a new order, as alternative route for an order of 60.000 he gives his customers a discounts for payments in advance if they pay it in advance cheaper 15.000 Euro. If he applies for a bank loan for 60.000 Euro he has to run after them 2 months and wait until he gets the finance.

'If I need a loan of 30,000, 40,000 euro, am I doing something completely different. It works even faster if I take an order, for example, let's say, an order of 60,000, for example, I give a risk, I say ok I'll make it for 45,000. Then I make it for 15,000 cheaper. …The fast money is there. If I request it 60,000 euros from the bank, then I have to chase them up for two months, wait until I get the money. In my industry I get faster a loan from my customers….'

He also thinks that he felt disheartened in other businesses in the past, so at some point he asked his daughter to apply for a loan as he knew he won't get any financing, but didn't want to give up.

Until 2003 before respondent #19 got her PhD (Doktorat) and a full-time job she phoned all big banks (5-6 times) despite worrying to be rejected for a loan. They all told her she won't get the loan and therefore she didn't even go there in person and was

discouraged. So she delayed the payment for bills etc. and couldn't pay her service charges for a year and the real estate management said that she can take her time after explaining her situation.

Respondent #24 felt discouraged for many years because of the state of the relatively young business and lack of collateral when he needed bank financing for an EDP/computer system. Bank officers discouraged him with the formal requirements that they have listed when he called the bank without arranging a personal appointment. They told him what the requirements were e.g. collateral etc. and he explains:

'I don't want that someone guarantees for me. I don't pull anyone into a theoretical ruin. Either I have to make it on my own. Therefore, I am an entrepreneur. Either I can do it myself or not. But no one should be harmed, so no third party.'

Therefore they told him he will be very likely rejected. As alternative capital structure he used money from his life partner and prepayment from customers and Credit card overdraw. When the firm matured Leon considered bank loans again.

In the research sample discouragement was often linked with poor financial situation of the firm as well as poor financial situation of the firm owner, their lack of collateral and confidence. Those who could prove a steady income were less likely not to get the loan but also less likely to need a loan. Discouragement therefore discouragement may be a temporary state which acts as self-rationing mechanism to the financial situation and a risk indicator at the time. From the samples in this study discouragement for bank loans seem to occur at the earlier stages of the capital structure and may be an indicator that the firm is not ready for the next step in the capital structure. It would be also possible that those discouraged and at the start-up phase lack confidence and are unable yet to present themselves as successful business owners.

5.8. Influence of business experience

Previous experience, relationship capital and knowledge has shown to be an important factors affecting the kind of finance and the amount of capital the new venture was able to receive (Atherton, 2009). Having gained experience in a similar job to the task performed once being self-employed has a positive signal effect on banks decision (Blumberg and Letterie, 2008). Entrepreneurs use their prior business ownership experience to successfully obtain external finance resources from sources such as banks and venture capitalists (Wright et al., 1997a, b). Blumberg and Letterie (2008) analysis suggests that banks value if a potential business founder has gained similar experience in a paid job to their start up, but don't value previous self-employment and leadership experience.

5.8.1 Experience and change in perception UK

For the respondent #4, #6, #5, #10, and #2 business experience has changed their perception regarding applying for a loan. Respondent #6 thinks that someone can better decide how efficient the capital can be used. Respondent #5's experienced changed his perception of bank loans over the years as he realised that he prefers investors. He didn't have a worse opinion about bank loans but he just thought that the interest they charge is sometimes extortion as well.

Respondent #10's experience changed her perceptions regarding applying for a loan:

'It's maybe because we spoke to more people, yes. We just found out more information and felt more comfortable about it. Also, seeing that the business was growing. So, we just felt a bit more confident that, at least, we could pay it on time.'

Respondent #2 supposes that business experience changed his perception regarding applying for a loan;

'Yes, we know the money that we take is the money that we can potentially lose. The money that we can lose is clearly the money that influences everything in your life... It is more risk, in you look at risk differently when you run a business.'

5.8.2 Experience and change in perception Austria

Respondent #16, #22, #19, #21 and #23 think that business experience changed their perception regarding applying for a loan. Respondent #16 thinks that experience over the years takes away the nativity of getting a loan easily and its put in perspective that own capital is important, where risks can be taken and where maybe a circulating assets mistake happened etc..

'Also empathise with the opposite side where a young entrepreneur can think nowadays, let's say at the age of 20, so now here I come, the banks are there to give me money, here I am and I am so beautiful and I'm so great. I have now the idea. This is put into perspective within the years when you realise why your own capital is really important there where you can take a risk and may have made mistakes with the current assets, or others through the management, leadership, life and business experience over the years.'

As respondent #22 applies for bank loans for investments for her clients, she gained more business experience, knows now how to conduct a bank loan officer conversation, what you have to watch out for, and how to write a Business Plan.

Respondent #19 was influenced by her patients who have private bankruptcies if they can't pay their lease instalments for two- three months and then really are getting into the debt trap. Respondent #21 added:

'That the effort is higher than in the past, in comparison, between 1985 and today it used to be just faster, less bureaucratic, quicker and simpler easier access to

loans to make things happen. That the effort just in the meantime is much higher than in the past. The comparison, let's say now, with 1985 with today it was just faster before, less bureaucratic and more quickly, easily easier to access credit and to make things happen. You did not have to deal with so many details, but rather could focus on the important things.'

Business experience influences Respondent #23's perception on bank lending in that way that the interest rate changes quicker than it used to be. She knows many people that founded businesses and have made high investments and financed it through credits. Respondent #18 added that he realized through experience of others how they were doing with banks which made him think worse about banks over the years. Respondent #9, #13, #25, ,#17, and #1 don't think business experience changed their perception regarding applying for a bank loan.

5.8.3 Decisions in the UK

Respondent #6 think that prior entrepreneurial experience is linked with the decision on whether to apply because if you had prior experience…

'...because if you had prior experience you would know whether that would be efficient or not.'

Respondent #4's small background in finance makes him very anti applying for a loan as he worked in hedge funds for around a year and thinks there's no point unless the business really needs a certain type of financing e.g. bank loan financing.

Respondent #9 doesn't know how far prior business experience is linked with your decision to apply for a loan. Respondent #10 doesn't know if entrepreneurial experience has been an influence in applying for a loan. But only because she took an entrepreneurship course and they tell you the difference between different ways to borrow money. Respondent #12 believes it's the wrong to be seeking debt at the start-up phase.

'I don't know of any start-up company, and I've worked for quite a few, who've actually taken bank loans out. I'd go so far as to say I don't know any start-up company that got offered bank loans. So it's almost an irrelevant point. Banks don't offer start-up loans unless you're guaranteeing against something like your house.'

Respondent #7, #11, #1, and #3 don't think that business experience hasn't changed or is linked with their decision regarding applying for a loan. Respondent #8's prior experience has not influenced her decision on applying for a loan but the stories she has heard from other people scared her.

'Well not from myself, but I suppose stories I've heard from other people have scared me. I think probably I got this from my family as well. My mum has certainly been keen for me to borrow from her rather than a bank and getting in real difficulties. It's the way I've been brought up; my mum's very much into paying everything off straightaway and all of that. She's scared of these things too, but she's not business minded. So I think she wouldn't take any risks.'

Respondent #1 never considered it as he didn't need it and is happy with the route he has taken as it would have been a risky option for very little reward. Respondent #3 has never really thought about a bank loan with the very first business because that was quite profitable and the profit went in to the second business. Only once during the starting up of this company, there were quite a few expenses he considered a bank loan. But now he wouldn't there is enough revenue.

5.8.4 Decisions in Austria

For the respondents #14, #17, #19, and #22 their entrepreneurial experience influenced their decision to apply for a loan. Although, #14 was always quite careful with those kind of financing methods which comes from his upbringing. Respondent #17

thinks that in his case there is no point to take out a loan because his business is very small and he has got debt he also doesn't have so much contact with banks as in his opinion because below 500.000 Euros he believes an entrepreneur should have the amount of money.

'From 500.000 Euro I can speak to the bank. From 500.000 Euro. Below 500.000 Euro taking a loan is pointless. Then you aren't an entrepreneur. The money you must have.'

Respondent #21 believes that every additional information through conversation with a bank benefitted him. It gives automatic more confidence in clarifying already in advance whether the bank loan is suitable for him.

'Confidence. I mean, you know precisely, whereupon the bank pays attention to on one hand and can prepare accordingly, has better numerical comparison. You can look back on a little bit more experience. There is automatically self-confidence.'

Respondent #22 believes that business experience does in a positive way, but despite preferring her own capital, it depends on the bank loan conditions and what she would need. If she invests then she might consider a loan, because this is really very cheap.

Respondent #19 says: 'I'm financially so strong nowadays that all investments can be made from my own income, from the capital of the firm and only sometimes need short-term for a few weeks a raise of the overdraft facility.'

Experience convinced Johanna that loans are a less preferred form of financial method because they are long time debts. She has a better overview when her current account has sometimes a bigger and smaller overdraft facility and her limit is given by the bank. Respondent #20's work experience only influences his opinion on bank loan in the sense that he worked for a long time to save enough to found his own company.

Respondent #16's entrepreneurial experience didn't influence his decision to apply for a bank loan at all. He believes that it is a good tool. Respondent #13's business experiences didn't influence the decision on to use a bank loan. 'But I have to say, at the beginning we did had a critic attitude towards banks, because the feeling is that a bank doesn't care if you have a good idea or not. Therefore, they don't take the risk. Clearly, but I think the older the business gets the more interesting bank loan become.'

At the beginning they were very critical of banks though because they felt that the bank doesn't care if you have a good idea or not and they don't like taking risks. Respondent #15 doesn't believe that his business experiences influenced him applying for a loan but made him realise that interest rates are a significant amount.

'Typically it's just, as I said interest rate. Is also not little. For example, because you have to take into account, does it pay off? If you know the business is going well, you're going to pay back the loan within one year. The loan is appropriate. It is satisfying. But if you know the business is not going well, only the average income will come in, then I would…let's say of 10.000 Euro you'll get at least an 8 % interest rate. In general business loans are at banks already much more risky because there are so many crises broke out in the last few years. Therefore, they are a lot more careful.'

5.9. Influence of gender

The gender differences are especially reflected in how finance is obtained. Although women-owned firms have comparable access to credit but do not obtain it on the same terms (Treichel, and Scott, 2006), the higher turned down rate for a loan may be caused by size, legal form, firm age, growth, industry, size of current bank or location factors in to the credit decision rather than gender (Treichel and Scott, 2006).

Women are less keen on approaching external funders than men (Sena et al., 2012). Focusing on the marginal effects of factors such as education, marital status, house ownership, social class etc. show that men's likelihood of approaching external funders is the same as for women (Sena et al., 2012). Female owned businesses are younger and smaller, have shorter relationships with lenders, and more of them are sole proprietorships (Wu and Chua, 2012).

5.9.1 Influence of gender of the entrepreneur in UK

Respondent #7 thinks that men are less likely to borrow money and says:

'I think men are more likely to not want to borrow money in my experience as opposed to women, but again, that is purely in my experience. My experience is limited, so that's just from what I've seen, male entrepreneurs and friends and different people, they don't like to borrow money from anyone.

Respondent #11 thinks that gender is an important factor regarding financial choices, applying for or receiving a bank loan and thinks she probably would make different decisions as women as she believes that females tend to be much more conservative and less likely to take risks like getting a bank loan. Respondent #12 thinks that she will take less risks as a woman regarding financial choice, applying a loan and making any financial decision. Between respondent #12 and her business partner, 'This is between me and Johannes. Johannes would rather jump off a cliff and find what's on the other side at the bottom of the cliff. I'll think about looking over the cliff before I jump. I mean not all men, but men seem to be more confident or less worried about the outcome. They will manage the outcome, good or bad, when they hit it. A woman will say "I don't want to hit, I want to weigh up the outcome and decide if I want to manage that good or bad outcome, and if I don't, I won't."' Respondent #8 thinks in business

employment it does make a difference if you're a woman for applying for a loan, it's her situation that makes a difference e.g. being a single parent, therefore being in a weak financial situation.

'I'm probably quite naive here. I think in business employment I think it does make a difference if you're a woman. I've heard quite a few stories of women who don't get paid the same as a man still, that's quite common in business. But for applying for a loan...'.

Regarding financial choices:

'I think it's my situation that makes a difference. Sure I'm a single parent, but it's my financial situation because that's not a strong situation to start off with. I'm just in a position to mess about. I've still got my overdraft and my credit card to be paying off. I couldn't even consider anything else.'

She still got her overdraft and her credit card to be paying off, therefore didn't even consider anything else.

5.9.2 Influence of gender of the entrepreneur in Austria

Respondent #13, #21 and #22 don't think that the gender influences the choice of financial source or if someone applies for a bank loan. Theresa doesn't think that gender influences someone's choice of source of funding, credit application or the chances to get the bank loan. She thinks education/training and income: `If you are a graduate engineer or master's or doctorate, you get more than if you are a cashier`.

Respondent #17 believes that he as a man find quicker sources of finance from friends and family than women but at the bank it is the same, they only look at papers. Respondent #18 doesn't want to generalise regarding men are being more riskier, but

thinks that men are taken more seriously and are believed to be more capable while women have to prove more to themselves and the pressure is higher.

'I believe that women have to prove more, the pressure is higher. Therefore the expectations that you really are on hand are much higher. While with a man it's like:" Go! It's alright!" I believe it goes faster.'

Respondent #23 thinks that men are riskier; borrow larger sums of money because they are self-confident, while women are more likely risk averse,

'Now just to generalize, it is not the case, of course for everyone. But I think that men are in principle more willingly to take risks. This also leads to that they borrow larger amounts, because so to speak they are self-confident enough to think they can pay it back. With women it is, I think, less likely. So they are more risk-averse, would rather take a traditional loan.'

In respondent #24´s opinion gender definitely influenced him on his loan decision as women tend to slow him down in making quick decision.

'Women tend to act as a break and are totally safety conscious. Whereas my male technician is simply more technical and ... how shall I say? Doesn't stop me so much, how to say, than the accountant or my life partner.'

Whereas his male technician simply more professional/ functional. He thinks that women see it more complex not as shallow as men when it comes to financing but thinks it is equal opportunity for men and women nowadays to receive a bank loan.

'...they search in different ways than men, let's say, for financing. They see it multi-layered. Not so superficial as men'

Respondent #15 doesn't know to what extent gender is an important factor in relation to credit application to get a loan because he has not realized any gender differences when he took a loan from Bank Austria. Respondent #15 thinks that he makes more risky decision than a woman.

'If it would depend on a women she wouldn't have gone as far as myself'

Some suggested that economical differences may lead to gender differences. According to respondent #19 gender is an important factor in relation in bank lending, as she has been rejected on the grounds that someone who gets maintenance from her ex-husband, has not got a secure income.

'I had at the beginning a relatively small income, even though I got a good maintenance. That was not enough. Even when I had earned already, I was given the feeling that that's nothing until 2003.'

Respondent #23 thinks that getting a loan is more difficult for women than men,

'Because women generally have a lower income. With women it is often assumed that they do not work full time. That they don't get as much support at home and so on. So those are prejudices.'

Respondent #20 also believes that the gender influences regarding choosing sources of finance, applying for a loan or to be accepted for a bank loan. He said:

'Now, I can better negotiate with women, because I feel perhaps too much influenced by male negotiators, meaning, at the bank, because there somehow so know-how to know-how collides so to speak.' He also doesn't think that loans are offered to a man faster that to women.

Respondent #16 thinks that men will make quicker or riskier decisions than women and while women think certainly wider and deeper.

'Because we are focused on the target and not being so good on many, many streams of thought, the all-round thinking simply and women defiantly think and feeling wider and deeper. It all depends. You cannot compare it with experience and project experience or business experience and so on. If that is now a wise old manager or now a tempered quite young Managing Director, are two different sexes, but completely have different experience and knowledge. But otherwise based on the tendency it could be that men rather the faster. But then they are also ultimately not so good managers, if

it is then too tempered. It depends now on the investment and on the financial background. If the company has enough own capital and hidden assets and real estate than it doesn't matter. So no differences in lending under these circumstances.'

But it also depends on (project or business etc.) experience, dependent on the investments and on the financial background (Hans).

To sum up, respondent #11 (UK), respondent #12 (UK), respondent #18 (A), respondent #23 (A), respondent #15 (A) think that men make more riskier decisions than women this is consistent with the research literature (Sena et al., 2012; Muravyev et al., 2009; Watson, 2006) which sees women as more risk averse than men.

5.9.3 Gender of loan officer influence

Discrimination

Muravyev et al. (2009) found that gender differences in the financing patterns, especially, in bank credit can be the result of the supply-side discrimination, suggesting that bankers' loan applications decisions are different include lower approval rates or differences in terms of financing and the degree of difficulty presented in the application process (Orser et al., 2006) for men and women although their businesses are similar in terms of creditworthiness. Coleman (2002) argued that lenders do not discriminate against women and seem to be determined by characteristics of the firm and owner such as less profitable firms with a poor credit history and those firms that are unable to provide collateral.

Female entrepreneurs have it more difficult to gain access to credit, even though they pay the same interest rates as male business owners, which is independent of the information available about the borrower (Bellucci, 2010). Also firms managed by females face some 5% lower probability of receiving a loan and pay higher interest rates (around half a percentage point) when loan applications are approved. Also the

likelihood of female entrepreneurs receiving a bank loan is higher in more financially developed countries while the size of required collateral is lower (Muravyev et.al., 2009). The lower likelihood of women-owned businesses applying for bank loans may be related to the belief held by women-owned businesses that they might face discrimination in the lending process (Treichel and Scott, 2006).

Carter et al. (2007) found that gender plays a role in the credit decision-making process as loan officers evaluate male and female applicants not just on the merits of their individual case, but also on the basis of their perceptions of men and women that have been imbued by gender socialization processes.

Bellucci (2010, p.2981-2) found that also the gender of the loan officer plays an important part in the outcome of the loan application. Female officers are more risk-averse or less self-confident than male officers as they tend to limit credit availability to new, unestablished borrowers more than their male counterparts but show more solidarity with female borrowers, who are required to pledge collateral less often, and greater subjection to male entrepreneurs, who are granted credit at lower interest rates.

5.9.3.1 Loan officer UK

Respondent #4 mainly spoke to men, but also spoke to a woman. He doesn't believe that it has influenced him. In respondent #9's case the loan officer was a male, doesn't think that the gender of the loan officer has an impact on her how she applies for loans. Respondent #3 thought that when speaking to the 2 male bank loan officer in their bank…

'it was quite negative and they didn't particularly fill me with confidence'.

He didn't have a revenue model in place and so they weren't particularly interested in giving them a loan. Respondent #10 thinks depending on who you speak to (man or women) in a bank, you make a different decisions rather than who the

entrepreneur is. Respondent #10 thinks following her instinct a man is a bit more trustworthy and a bit easier to get the loan rather than from a woman.

5.9.3.2 Loan officer Austria

Respondent #17 also doesn't believe that gender of bank assistant plays a role in order to get a loan whether he now speaks with a woman or with a man. Respondent #16 doesn't think at all that gender, when it comes to bank financing plays a role as bank finance in his opinion has is not gender-specific and believes that these times are over.

Respondent #15 doesn't think that gender plays a role. In his opinion what is important is that the person knows what he or she is talking about

'When it is about business, it doesn't matter whether it would be a man or a woman. It's just important if someone really knows what he is doing. You realise it, when you have really worked long enough. Experience you get from work. You can take the measure of somebody very well whether or not the person has really a notion of something'

Respondent #25 doesn't think that the gender of the bank assistant influenced when applying for a bank loan at the same male bank assistant who gave her other loans before. Respondent #19 doesn't think that another gender would have influenced regarding applying for a loan. Respondent #21 hopes that gender hasn´t played a role. When respondent #22 applied for a private credit she spoke to a male bank loan officer but is not sure whether the gender influenced. Respondent #20 thinks despite he was talking to a female bank assistant,

'...probably a man would have had it even more difficult.' Respondent #18 thinks that gender plays a role when applying for a bank loan*,' I do believe that you have an advantage if you are a man.'*

5.10 Influence of the economic/ social changes

5.10.1 Influence of the economic/ social changes in the UK

According to the UK participants sample some attitudes were influenced by environment changes such as the financial crisis whether to apply for a loan or not and as mentioned already before, the recent financial crisis caused distrust with banks. Respondent #6 felt that economic or social environment changes such as the financial crisis influenced his decision to apply to a bank,: *'It's probably made my likelihood of applying for a loan even less.*'

Respondent #3 thinks there is less confidence in banks at the moment. *'I certainly wouldn't want to be in a position where I owe banks. I'd like to keep it between myself and an actual investor.'* Respondent #8 knows people who have lost all their savings which created loss in bank confidence. But feels that the bank is probably traditionally the safest place but it's still more risky than family and friends finance. Respondent #12 states that:

'It doesn't affect me how I view bank loans, it affects me how I view banks. I don't really believe in banks in general. I look forward to the restructuring of banks.`

Respondent #7 states:

'I'd definitely say it's influenced the way banks are not lending to small businesses, but I wouldn't have taken a loan even if it was positive conditions and low interest rate.'

Respondent #9 thinks the financial crisis could maybe have influenced the decision to apply for a loan and possibly made her more skeptical.

Some of participants in the UK sample don't think that the economic crisis changed their attitude to apply for a loan. Respondent #4 didn't think the financial crises had an impact. Respondent #10 also doesn't think that economic changes have an effect because in her opinion it depends more on how the business is going rather external

factors. Respondent #11 also doesn't think that the financial crisis had an effect, but, social factors did such as how she was raised. Respondent #2 has always been debt diverse and doesn't like to pay interest rates because he knows the money is gone.

5.10.2 Influence of the economic/ social changes in Austria

In Austria, respondents #22, #23, #25, #14, #15 all think that the financial crises influenced their decision on whether to apply for a loan. According to respondent #22 the situation is more and more insecure and makes her more critical towards banks because of the financial crisis.

'When it gets more and more insecure or how can I put it, the situation, then I will stay away.'

Respondent #23 tried to use her own financing even more because the financial crisis was so uncertain. Respondent #25 thinks that the chances of getting a loan are more difficult than those before 2007.

Respondent #14 when he founded the business as he was more worried about getting contracts/clients as people still thought about financial crisis. As he was not in need of finance, it didn't really influence him extremely. According to respondent #15 applying for a loan stated:

'Most firms closed in the last few years, declared bankruptcy. This was the biggest point where firms thought they are thinking about it 3 times rather than 1 time'

Economic or social changes such as the financial crises didn't influence respondent #20, #16, #18, #24, #21, #19, #13, or #17 to apply or not to apply for a loan at all as they never even applied. Respondent #20 thinks the image of banks changed because of the financial crisis but otherwise think that it was a factor. Respondent #18 witnessed from other people that during the financial crisis the interest rates and

collateral requirement increased and that it became more difficult in general to get loans, but didn't influence him.

'*I have heard from other people who had a lot to do with banks that during the financial crises credit costs increased. Collateral requirements have increased that overall it got more difficult for people who had to do with banks or have applied for loans. That I have noticed. But it hasn't affected me because I had nothing to do with it during this time.'*

According to respondent #16 only the requirements have changed, as banks are even more careful and that especially at the cost of Austrian customers and SMEs, who then gets loans more difficult. Respondent #24's business actually benefits from financial crisis as more people decide to repair their computers rather than buying a new one as they can't afford it, which means more business for him.

'Actually we live from the financial crises, because we repair computers and the worse way people are, let's say, financially, the more the let things repair.'

5.11 Conclusion

This chapter has built upon and greatly extended Atherton's (2009) research on capital structures and financial strategies on new firms by performing interviews and developing case studies from 12 UK and 13 Austrian entrepreneurs in 2013. In particular the chapter has analysed the financial lifecycle of each entrepreneur and sought to see the extent of discouragement to apply for a loan existed after looking at participants' chronological decision structure and in form of case studies. The chapter has focused upon several themes: prior business experience and business closure experience, gender, attitude to bank finance, and the influence of economic changes in a comparison between two countries, the UK and Austria. The chapter has been able to better understand the role of human capital in entrepreneurs' attempts to access finance

in the UK and Austria. The chapter has identified certain groups of entrepreneurs who have difficulties in accessing finance. The findings and implications are further developed in the overall conclusion chapter.

Chapter Six
Discussion

6.1 Introduction

This chapter consists of six sections which include the introduction. In section 6.2 an overview of the research is presented. Section 6.3 provides a discussion of the findings in relation to the propositions which were presented at the end of chapter three. This section will introduce new theory on capital structure based on how the existing theory needs improvement. Then how experienced/habitual entrepreneurs influence capital structure will be presented. Key findings on gender differences will be offered. Results show that attitude to bank financing varies dependent on the country. Then findings will be presented that show that discouraged borrowers are linked to lack of confidence, lack of experience as well as the financial health and maturity of firm, and then the economic situation plays an important role in influencing capital structure choices in particular bank finance. Next, in section 6.4 the chapter's summary is presented. Lastly, in section 6.5 a short conclusion completes the chapter.

6.2 Overview of the Research

In this section an overview of the key finding and the discussion will be presented for the qualitative research on the capital structures which are followed, together with why and when discouragement in bank loan borrowing occurs and how to predict a more accurate capital structure for SMEs. The role of gender and also entrepreneurial experience play central roles in the investigation of the capital structures and discouraged borrowing. What is unique about these key findings in this part of the study is that it contributes to the understanding of how capital structures develop and how discouragement of borrowers come about. This contrasts from most research studies in

the field that only present quantitative data on capital structure and discouraged borrowers without explaining the reasons behind the following of different sources of capital, and why entrepreneurs find that they are discouraged borrowers. In other words, quantitative research methods reveal the percentage of the occurrence of particular sources of capital, and the percent of entrepreneurs who are discouraged borrowers; but, the qualitative research is able to reveal why, when, and how different capital structures are following, and why, when and how discouragement occurs through the usage of open ended questionnaires. For the qualitative research 25 participants were interviewed to form 25 sets of interview transcripts in total from the UK and Austria. These interviews consist of the gathered information of the 25 participants and therefore provide the reader with a deep insight into to the topic of access to finance for SMEs including their capital structures and in particular into the phenomenon of discouraged borrowers. The discussion will draw particular attention to the differences between the genders and entrepreneurial experience, differences between the UK an Anglo-American market based system and Austria a Continental European system as relationship and bank orientated system (Lehmann and Neuberger, 2001), based on the findings in this study.

6.2.1 Capital structure

Proposition #1 Entrepreneurs in Austria and the UK follow the Pecking Order Theory in the capital structuring of their firms.

The key finding in this study on capital structures of SMEs in the UK and Austria show that the samples don't always follow the Pecking Order Theory. The interview material does not support proposition #P1. In this Theory the firm´s capital structure starts with financing sources that exclude debt or formal investments, and then

prefers debt finance and eventually formal investments (La Rocca et al., 2011). However, as in the samples of this qualitative study the UK and Austria SMEs don't always follow the Pecking Order Theory, I argue that it seems to be more a question of what is available, possible, what strengthen the owners and the business's financial situation rather than following a set structure of self-funding, then debt-external and then eventually external equity. This is similar to the finding of Atherton (2009), whose samples also didn't always follower the Pecking Order Theory. In other words this research shows that a theory that explains capital structures of firms needs improvement.

The research however confirmed that informal financing is popular choice when starting up. In this research all of the 25 participants used their own financing at the beginning of the capital structure except one business which is a constituted charity who used government funding. Also, founders may decide to use a variety of capital sources at once if a single source was not providing enough capital**.** Atherton (2009) research showed that almost all of the new ventures in his sample were funded by founder equity and formal debt. While this research also found that some of the serial entrepreneurs were able to use their experience and reinvest from their past businesses or where in a better financial position and found it easier to access finance than those who just starting up for the first time. The research shows that the capital structure preferences are owners funds includes family funds, savings from previous employment and savings from the previous businesses they owned is often used as starting capital in their capital structure. Therefore, one used bank products combined with her own finance as starting capital in the UK sample. Three sample combined government financial support and one combined BA with their own funds at the startup phase in the Austrian. The results show that new venture financing strategies preferences by funders such as using government financial support early on in Austria which seems to be more common in

Austria than in the UK, or using overdrafts in the UK. Firm´s capital structure strategy may be determined by the founder on their individual personal financial, social, family situation, geographic location and life situation. Therefore Pecking Order Theory does not provide a complete explanation of new venture funding pattern. This is also consistent with the finding of Atherton's (2009), who also doesn't find the Pecking order in all of his samples.

In general the study suggest that at the beginning when the start-up is founded it has not enough collateral which is in accordance with Elston and Audretsch (2011), Degryse et al. (2012), Blumberg and Letterie (2008) and therefore is which makes it risky to invest or lend capital to the start-up (Harrison et al., 2010; Hopp, 2010; Hsu, 2010; Blumberg and Letterie, 2008) and therefore probably not so suitable for bank finance. In addition debt finance seems to be more suitable for firm owners who have created already wealth as then they have proven themselves and are seen less of a risk even if it is in other forms such as tangible assets and can't use their valuables as direct investment. Mac an Bhaird and Lucey (2011) research found that personal assets are used as collateral to gain access to business debt, and shows the relatively high use of debt in the youngest categories. Debt finance at this point may be suitable as they are already in a later stage in the capital structure and have proven themselves as sustainable business. Therefore it may that when companies don't apply for a loan at earlier stages of their capital structure despite in need of finances, they are discouraged and self-rationing which is an indicator that the business is not ready yet to enter the next stage of the capital structure.

The financial structure for high tech and innovative firms face major barriers to access external finance due to asymmetric information (Venturelli and Gualandri, 2012) and it is a due its uncertainty in particular risky (Freel, 1999) which may leads to an 'equity gap' (Fairchild, 2011). In this research Business Angel investment was only

evident in 4 of the 25 start-ups and only one of them had investors from the beginning. All of the businesses were in high tech sector which confirms that those in the high tech sector need financing when starting up and as those businesses may be too risky for bank finance, it would be unsuitable to apply for a loan.

Further key findings are related to the national context show differences in funding depending on the country. Austria as bank-oriented country the finding suggests that government financial support is often used (at the beginning as a bundle with other sources most of the time) and that bank relationships are extremely important and far more commonly used than in the UK. La Rocca et al. (2011) found that debt is in the early stages the first choice and is more used by younger firms than older firms in a bank-oriented country. While in the UK BA and VC is commonly more likely considered and used early on. This research reveals that these local factors such as policies and government support influence the capital structure of each firm, their interaction with funders and their finance preferences.

Further differences between the countries have been revealed regarding previous business experience. In Austria government financial support and owners saving from previous jobs tends to be a common arrangement and bank loan in general are more often taken into consideration and used for start-ups in comparison to the UK. In the UK participants in this research study use their own finance and more likely to use investors, which is a reflection on the UK local framework and attitudes. Therefor the capital structure of a firm is influenced and formed by what the legal framework, the support it offers, the attitude to finances and mainly the possibilities to a certain firm owner based on his Human capital in a particular geographical location. This uncovers that the capital structure of businesses is far more a complex that previously argued by the Pecking Order Theory.

One of the main differences between the UK and Austria is that Austrians businesses get more support, especially financial support when starting up. Austria has multiple organizations that are government funded that support SMEs especially financially while in the UK in general provides multiple support organizations. This suggests that capital structures do exist for start-ups influenced on the environment and are amended to the specific local contexts and is followed by the funder, lender or Investors as well as the entrepreneur rather than having a fixed strategy. But what the Pecking order seems to provide is a theory to a capital structure most logical to follow without considering other factors such as current government funding supports and other local infrastructures and bank loan terms and conditions, personal networks to formal investors etc.. Therefore capital structures theory should be adjusted strategically to a certain setting based on local environments and cultural or national attitudes to start-up and SMEs funding rather than using one fit for all theory.

6.2.2 Habitual entrepreneurs and Capital Structure

Proposition #P2: Habitual entrepreneurs are more dependent upon internal sources of finance compared to novice entrepreneurs.

In some cases it can be reasoned that the habitual entrepreneurs capital structures is a continuing one from their first business the following businesses. In that regard there is evidence to support the second proposition. As the previous businesses of habitual entrepreneurs were the main influence on their capital structure the business is funded from retained profit from his previous work /businesses. In the UK sample those who were successful habitual entrepreneurs used their own financing from their previous businesses (sometimes with his business partners' capital) and may a bit later they got bridge loan/mortgages as he got good credit from his work experience, getting

credit cards, paying them back. This indicates the strong influence of previous business ownership in the capital structure of the current business(es).

In addition, participants indicated that experience makes them have more information, for example on what their preferences of financial sources are, become more aware of risk factors, debt traps, less naïve about getting loans easily, more confident to speak to loan officers and being able to pay back. Prior entrepreneurial experience influences also the decision making process on whether to apply because they had a better understanding on how efficient it will be. Some started to see loans are a less preferred financial option because of interest rates.The major most of them that are discouraged borrowers lacked prior business experience. Therefore, discouragement also seems to be a sign of lack of confidence which may be triggered due to lack of experience.

6.2.3 Gender and Capital Structure

Proposition #P3: Male entrepreneurs but not female entrepreneurs in Austria and the UK will follow the Pecking Order Theory in the capital structuring of their firms.

The findings on the role of gender overlaps with attitude towards finance and the results indicates that the surrounding environment plays arguably a more important role on how participants see financial options, capital structure and use finance compared to gender. Furthermore, from the samples, it became apparent that the SMEs bank loans attitude of entrepreneurs is strongly influenced from childhood, the way someone has been raised and how money has been dealt with in their environment when growing up. Those attitudes may also be influenced on national and cultural level. Since the financial crises, mistrust has been also developed towards banks in the UK sample. A more liberal view in the UK sample by some participants was that it depends on the situations and bank financing can be also positive. In Austria some saw it as a burden and

expensive loaned money. In addition, bank loan officers play a more important role in Austria and bank loans can be a needed tool to get the finances needed at once. Taken together the results are inconclusive with regard to proposition #P3.

6.2.4 Discouraged borrowers

Proposition #P4 Discouraged borrowing will be a temporary phenomenon for entrepreneurs in Austria and the UK.

This qualitative study adds to literature how discouraged borrowers occur. Despite literature indicates that high probability of loan rejection discourages individuals to apply (Blumberg and Letterie, 2008), this research goes one step further and uncovers under what circumstances loan rejection is expected. The key findings in this research study on discouraged borrowers show that discouragement was often linked with poor financial situation of the firm and owner personal situation, their lack of collateral and lack of confidence related to lack of entrepreneurial experience. Those businesses owners which had a steady income were more likely to qualify for a loan but also less likely to need a loan. Discouragement therefore may be an impermanent state and acts as self-rationing mechanism and a risk indicator to the financial situation of the firm at a time. In other words, in this study discouragement for bank loans seem to take place more likely at the beginning of the capital structure and may be a sign that the firm is not ready to progress to the next step in the capital structure. Those discouraged borrowers at the start-up phase seem to have lack confidence and are unable yet to present themselves as successful business owners. Thus, the evidence supports proposition #P4.

In addition despite discouragement seems more common at the beginning of the capital structure of the business, it may happen in later stages but seems less likely. In

this sample participants were financially constraint when they were discouraged borrowers and weren't able to use their own finances or the finances of friends and family as substitute route in our research sample. As discouragement seems to be only a temporary condition changes until the business becomes more stable due to the maturity of the business, or business owners gain more experience that makes him/her start to apply again when they feel more hopeful again.

There are differences between UK and Austrian discouraged borrowers. The Austrian participants have a more personal relationship with the loan officer who makes the main decision. In the Austrian sample those discouraged were told in advance that they won't qualify for a loan and actually spoke to the banks already. That may have left participants that lack experienced immediately discouraged, however those with more experience may be more hopeful by trying to negotiate more or convince another loan officer from another branch or bank who they have a better bank relationship with as participants suggested that bank loan officers are the one who make the main decision. In the UK sample discourage borrowers were not told prior their application whether they will get a loan or not. In comparison between the two countries Austrian bank loan officers are more flexible in their decision making process and analyse potential applications more on individual circumstances.

6.2.5 Gender

Proposition #P5 Women are more likely than men in Austria and the UK to be discouraged borrowers.

Gender differences are believed to exist also due to social factors that put women into a worse financial situation. In this research it revealed that in the UK and Austria women

indicated that when they have been in roles particular assigned to women such as being a single mother or a stay-at-home-mother and/or housewife they faced disadvantages when starting up a business due to economical differences such as only receiving maintenance/ alimentation, lower income, only working part time, prejudices that they won't get a lot of support. This characteristics found in roles especially to women may lead to gender differences as women have been rejected on those grounds. However, Sena et al. (2012) found that women´s lack of collateral does not seem to be the main factor that discourages them from seeking finance.

It can be argued that there are gender differences witnessed by entrepreneurs regarding financial choices, applying for or receiving a bank loan in the UK and in Austria due to stereotypical attitudes towards finance imposed on men and women by society. In this qualitative research in both samples some of the participants suggested some typical gender stereotypes about men and women that men are more confident, risky more competent while women are more conservative regarding borrowing loans regarding obtaining finances for their SMEs. In the UK sample one female participant suggested that a woman probably would make different decisions as they are more often conservative and less likely to take risks regarding getting a bank loan. One male participant thinks men are more likely to not want to borrow money as opposed to women. In the Austrian sample male participants indicated that men find financial sources quicker, are more risk takers, are taken more seriously, are offered loans faster than women, are more hot-tempered, make quicker or riskier decisions, focus more on the target and are not so complex while women think wider and deeper, although it is depending on (project or business etc.) experience, dependent on the investments and on the financial background. One male participant thought that he can better negotiate with women because he feels influenced from male negotiating partners at the bank, because know-how collides with know-how. It can be argued that entrepreneurs are influenced

by having a certain opinion on genders and the gender's attitude to finance, It also suggests an opinion on their own genders attitude to finance which may be influenced by society and influences eventually men and women decision making behavior.

In contrast, the gender of the loan officer didn't seem to have been influential to the outcome of the bank loan application to the large majority of the sample in the UK or Austria whether they apply for loans. These results suggest that the participants in both sample from the UK and Austria believe that the influence of the bank loan officer is less important than the gender of the entrepreneur as Human capital. The evidence supports proposition #P5.

6.3 Summary

Proposition #P1 stated that Entrepreneurs in Austria and the UK follow the Pecking Order Theory in the capital structuring of their firms. However, the analysis of the transcripts from the interviews with the twenty-five entrepreneurs suggests that the entrepreneurs don't necessarily follow the pecking order theory.

Proposition #P2 stated that habitual entrepreneurs are more dependent upon internal sources of finance compared to novice entrepreneurs. The habitual entrepreneurs were indeed able to draw upon profits from previous businesses and allowed them to make greater use of internal sources of finance for a longer period of time compared to the novice entrepreneurs.

Proposition #P3 stated that male entrepreneurs but not female entrepreneurs in Austria and the UK will follow the Pecking Order Theory in the capital structuring of their firms. The findings on the capital structure and gender are inconclusive and show that the environment is arguably just as important as gender. Whilst in statistical studies

there can be multicollinearity between variables the equivalent can and has occurred here with regard to gender, environment and the use of capital structures.

Proposition #P4 stated that discouraged borrowing will be a temporary phenomenon for entrepreneurs in Austria and the UK. The interviews were fascinating and showed that a variety of circumstances contributed towards being discouraged borrowers at the start-up stage and particularly being disorganised. Those discouraged borrowers at the start-up phase seem to have lack confidence and are unable yet to present themselves as successful business owners. Thus, the evidence supports proposition #P4.

Proposition #P5 Women are more likely than men in Austria and the UK to be discouraged borrowers. The interviews supported proposition #P5, and show that despite various changes in legislation over the years which had the intention of bringing about equality between men and women, when women perform roles such as being a stay-at-home mother and/or housewife that this caused problems which meant they were more likely to be discouraged borrowers.

In both countries some indicated that the financial crises did influence as there is less confidence in banks and created more mistrust towards banks and created more insecurity however some indicated that the financial crises didn't influence whether to apply for a loan as the bank is still a traditional option of financing. However after the financial crises Austrian participants seem to notice that it became harder to obtain bank loans in their country. That may have led to more discouragement. Therefore this study reveals that attitude and the perceived environment of financial availability

To sum up, the comparison study between the UK and Austria is rich on key findings relating to access to finance in relation to discouraged borrowers. The key finding of the qualitative research chapter show that in order to fully understand capital

structure a more complex approach is needed expanding the Pecking Order Theory. For example the reason high tech businesses don't follow the Pecking Order Theory is due the lack of the consideration of the terms and condition of banks to risk factors of individual businesses in a national setting. It may be that in some countries bank finance is more likely used for innovative and high tech firms than in other countries because bank loans are handed out under different terms and conditions of a bank dependent on legal, cultural, economic differences in a region. Although the Pecking Order Theory provides a good starting point the theory needs further conditional variables such as government funding options, economic climate, geographic location, national legislations, cultural attitudes, gender etc. to predict capital structures more accurately. Therefore the findings in this research provides a new and improved model on capital structure taking in consideration different aspects that influence the decision making process.

Regarding to whether the capital structure should focus on the individual business or the entrepreneur it seems that both need to be taken in consideration. Habitual entrepreneur's financial situation is highly influenced by their former businesses capital as well as the current project. Those who have been employed beforehand have advantages as they can present former business experience and regular income to bank loan officers. Therefore this study argues that the capital structure should be focusing on the entrepreneur as well as the business.

Discouraged borrowers have a self-rationing mechanism in the capital structure. This research identified two types of discouraged borrowers; those at the beginning of the capital structure which haven't reached a level of maturity yet and a less common form of discouraged borrowers presented in this research sample; the discouraged borrowers who decline from a level of stability. Therefore the finding suggests not only that discouragement is not a permanent condition, there are also different types of

discouraged borrowers. How entrepreneurs become discouraged also differs between the UK and the Austrian sample as they differ regarding the relationships they have with their bank.

The key findings in on gender this research shows that in both countries many of the participants had stereotypical views on men and women regarding obtaining finance. The study reveals that many of the participants believe that man are more risky, confident and get easier financing for their business. However, it could be that those were generalization, prejudices or simply outdated stereotypes. It also could be that sexism in our society, gender stereotypes which are already learned childhood behavior that spill over into men and women financial behaviors. Therefore women may need to be encouraged to be more assertive and to take risks while men need to be more hesitant to avoid hazardous financial decisions and be discouraged to take out risky loans. It may also be that some women simply can't allow themselves or simply don't want to take large financial risks as there are economic differences between the genders as women are often the prime caretakers and are less likely to jeopardies their financial security. Therefore the gender must be taken in consideration for capital structure and discouraged borrows theories.

Finally, research showed that the financial crises also impacted on bank lending and also attitude towards banks as it created a general mistrust in them. Bank loans due to the financial crises had been less available and bank finance was more difficult to be obtained. Therefore, economic situation such as the financial crises should be also considered in the capital structure as it has an effect on attitude towards lending.

6.4 Conclusion

This chapter has built upon and greatly extended Atherton's (2009) research on capital structures and financial strategies on new firms by performing interviews and

developing case studies from 12 UK and 13 Austrian entrepreneurs in 2013. In particular the chapter has analysed the financial lifecycle of each entrepreneur and sought to see the extent of discouragement to apply for a loan existed after looking at participants' chronological decision structure and in form of case studies. The chapter has focused upon several themes: prior business experience and business closure experience, gender, attitude to bank finance, and the influence of economic changes in a comparison between two countries, the UK and Austria. The chapter has been able to better understand the role of human capital in entrepreneurs' attempts to access finance in the UK and Austria. The chapter has identified certain groups of entrepreneurs who have difficulties in accessing finance. The findings and implications are further developed in the overall conclusion chapter.

Chapter 7

Conclusion

7.1 Introduction

This study has tested a series of five propositions relating to pecking order theory and discouraged borrowing theory. The role of gender and prior entrepreneurial experience has featured prominently in the thesis. The propositions were tested using qualitative research which utilised the aforementioned theoretical frameworks, and sought to understand access to finance using an international comparison study between the UK and Austria. The care which was taken in the collection of the interview material leads the researcher to believe that the results obtained are objective, although epistemological reflections mean that it has to be acknowledged that no research is unequivocally objective. The qualitative study allowed me to use my fluency in German and English to interview 13 entrepreneurs in Austria and 12 entrepreneurs in London to better understand entrepreneurs' journeys in building capital structures and seeking finance and the nature of the outcomes of their endeavours, and whether they were discouraged borrowers. This chapter commences with a summary of the key findings for the three applied chapters. This is followed by the theoretical implications of the study, and the policy implications. Reflections on the limitations of the thesis are accompanied by suggestions for future lines of enquiries by researchers. Lastly a conclusion completes the chapter.

7.2 Summary of Key Findings

This study shows several different patterns to the Pecking Order Theory which reveal new venture financing strategies preferences by funders. In the UK most

participants, except a charity which uses government funding, use their own finance at the beginning but also often in combination with other sources, such as hedge funds, overdrafts and credit. In a later stage friends, credit cards, overdrafts, mortgages, Business Angels, university grants and then in even a bit later in the capital structure Business Angels are used in the United Kingdom. In the Austrian sample entrepreneurs started their businesses with own finances and a couple combined it with government funding and one business combined it with business angels. At the next stage Austrian businesses used all sorts of funding such as governmental funding, own funds, family funds generated profit, business angels and funds from life partners. Later stages include government funding, bank loans, business angels, and funding from life partner. In some cases it can be reasoned that the habitual entrepreneurs capital structures is a continuing one from their first business the following businesses. This is due to the entrepreneur gaining experience and possibly also capital from his previous venture that he would have otherwise gained in a business at the beginning of his capital structure. In other words, habitual entrepreneurs can skip certain steps in their capital structure that start-ups still have to go through, such as proving credit worthiness and accumulating (internal and external) capital.

Three discouraged borrowers were found at the beginning of the capital structure and one at later stages after the business has declined from a level of security in this sample of 25 participants. Therefore, 16% are discouraged borrowers in this research. Business experience may make entrepreneurs more knowledgeable, informed, change their attitude towards applying for bank loans, confident, and finance preferences change. This has been seen in individual examples in the UK and in Austria, where entrepreneurs referred their decision making process on their past experiences. This may confirm that experience entrepreneurs are some steps ahead and therefore make better or different decisions.

Both genders are influenced by society stereotypical attitudes. Participants in this research generally believe that men are assumed to be more risky and more confident while women to be more conservative, less risky and more careful in their finance behavior. In addition, society places the responsibility on bringing up children on women as primary caregiver. The large majority of participants don't think that the gender of the loan officer plays a role in their lending decision. It can be argued that those gender stereotypes may be formed during childhood.

The findings on participant's attitude towards finance show that the surrounding environment and childhood influence plays an important role on how participants perceive financial options and use finance. Those attitudes may also be influenced on national and cultural level. Since the financial crises, mistrust and uncertainty has been also developed towards banks in the UK and Austrian sample.

7.3 Theoretical implications

For the qualitative research the main theories used were Pecking Order Theory and Discouraged Borrowing Theory. As Founders' human capital positively effects firm growth (Colombo and Grilli, 2010), insights from human capital theory were also incorporated into the testing of the propositions and specifically the exploration of whether variables such as gender and experience influence capital structures built, and the extent to which the entrepreneurs were discouraged borrowers. According to Sena et al. (2012) women are less likely than men to gain enough human capital such as entrepreneurial experience to found a business due to their family commitments. The findings of this qualitative study show indeed that women due to social factors have less human capital and are put into a financial disadvantage when starting up especially when they have been in roles particular assigned to women due to the lack of collateral and experience. Also this research found that social pressure on decision making

behaviors patterns may influence genders attitude to finance. Therefore the gender of the entrepreneur suggests the strength of Human capital variable. Also entrepreneurship experience as human capital indicates the entrepreneur having more information, more risk factors awareness, loan efficiency, understanding difficulties about getting loans easily, more confident to speak to loan officers and being able to pay back. Discouragement also seems to be a sign of lack of confidence which may be triggered due to lack of experience and that again may lead to different decision being made by the entrepreneur. The human capital theory shows that Human capital influences finance decisions.

The role of experience was found in the analysis of the interview transcripts and showed that the accumulated profits and capital from prior businesses did place the habitual entrepreneurs in a favourable position in comparison to novice entrepreneurs. Also the habitual experience did help in the nature of the associations with the loan officers. However, disentangling the exact nature of the relationship is difficult. The interview transcripts seems to show that those participants that have a stronger and more personal bank relationship with the loan officer who makes the main decision and therefore entrepreneurs can bring their individual case better forward such as in the Austrian. This may have left participants that lack experience immediately discouraged if one of the loan officers told the entrepreneur that he won't get the loan. Despite participants pointing out that another loan officer may have a different opinion than the one from another branch from the same bank. Therefore those with more experience may have been more hopeful by trying to negotiate more or convince another loan officer from another branch or bank who might have had different criteria, seems to be more flexible regarding the banks terms and conditions or they may have had a better or already longer lasting bank relationship with the loan officer which had built trust between the two parties. It may be the case that the experienced entrepreneurs may be

better at utilising their bundle of resources and also learn how to present and sell themselves better than their novice counterparts. In comparison with the UK, Austrian bank loan officers analyse potential applications more on individual cases which makes the Signalling Theory a more dominant feature in a bank based country such as Austria.

The Pecking Order Theory has been used to explain capital structure and as an aid in this study in what timeline discouraged borrowers occur. Despite it provides an overall fundamental theory, most of the samples did not always follow the Pecking Order Theory. This research found that the Pecking Order Theory could be correct when all internal and external influences to capital structure were ignored. Therefore it can be argued that the Pecking Order Theory may be the entrepreneur's most rational common structure if other factors would not play a part. However capital structure is influenced by multiple internal (such as firm individual characteristics) and external (such as national and cultural characteristics) influence variables which shape capital structure decisions. Therefore a new more complex theory is needed which includes internal and external influence conditional variables such as government funding options, economic climate, geographic location, national legislations, cultural attitudes, gender, just to name a few to predict capital structures more accurately. Additionally, the theory should not only be expanded by adding variables, also the capital structure should add previous capital structures to the theory as it can be argued that habitual entrepreneurship is a continuation of the capital structure from their first business the following businesses.

7.4 Limitations and implications for future research

As with other research studies, this qualitative study has several limitations and therefore offers future research opportunities. My qualitative research objectives opened up still under-researched areas; the reasons and under what conditions does discouragement in bank lending for SMEs come into existence. In other words, why,

how and when do entrepreneurs become discouraged borrowers in the capital structure? Although the subject matter has been presented and a contribution to the existing knowledge in this area has been provided, some limitations exist.

Firstly, the primary data gathered in the qualitative study was collected through responses from small business entrepreneurs through questionnaires and in-depth interviews. The study used data gathered from mainly London and a few other UK regions and Vienna the capital of Austria and the results related to capital structure, bank credit rationing and discouraged borrowers present two nations legal contexts. However, it remains important to recognize that the usage of 25 case studies can be expanded by using a larger sample of interviews in a regional context would be beneficial to identify more patterns.

In addition it would be interesting to expand this research by conducting research over long period of time in order to see what expectations they had regarding financing and what really was possible, as well as to determine whether entrepreneurs and loan officers' expectations regarding a bank loan were realistic, e.g. whether the entrepreneur was able to pay it back etc..

This research shows that in Austria (a bank-oriented country) government funding plays an important role for start-ups and that bank relationships are extremely important for capital decisions and fundamental for business activities in the early stages. While in the UK BA and VC is commonly used early on. The study did not reveal whether in Austria government funding is the substitute to the under developed venture capital and private equity market in Austria, when bank finance is not available or simply used to support startup success. Although Austria provides a lot of support to start-ups, it would be interesting to expand this research by investigating whether other bank based system countries provide government funding and under what conditions. Furthermore, also the SMEs provision and usage of government funding should be

further researched and compared between different market based systems countries with a developed VC and private equity market to reveal how government funding effect capital structure and whether it may decreases the number of discouraged borrowers as entrepreneurs are less in demand of bank financing.

There are other limitations in this study. In order for policy makers and practitioners to develop more appropriate and beneficial policies towards discouraged entrepreneurs, further research must be conducted in relation to other national setting and exploring further the why and how discouragement occurs in different regions that may have different financial support system available and may be subject to different legislations, have different bank relationships especially in smaller populated towns than in large cities. Therefore comparison studies between different countries as well as counties or comparison between major cities and counties may reveal additional interesting findings.

Further research may want to be conducted in Austria and the UK by expanding this research project by focusing on discouragement between different subcultures which may yield additional findings. Therefore cultural differences may influence majorities and minorities lending behaviour. Indeed, the respondents themselves reflected that there were relevant differences between majority groups and minority groups especially regarding family finance. For example, entrepreneurs originally from Austria and those emigrating from a different legal and culture structure may use finance differently. In addition, research should expand on and distinguish between the size of the small businesses (sole traders, small businesses and medium businesses) and on the differences between portfolio, serial and novice entrepreneurs in relation to discouragement of SMEs in bank borrowing in a qualitative research.

Secondly, further research is needed on how to prevent discouraged borrowers who would be suitable for a loan? In order to do this, literature has to divide

discouraged borrowers more effectively between those who are self-rationed discouraged borrowers, therefore those who are ‘rightfully’ discouraged borrowers and those which are ‘unrightfully’ discourage borrowers. Those who are ‘unrightfully’ discouraged borrowers should be the focus of future studies. In particularly the focus should be on what influences those who in need of a loan and would qualify for a loan not to apply.

Thirdly, it may be that discouragement of bank borrowers is triggered by banks themselves and as a consequence they lose valuable or potential customers. Therefore research should focus on: To what extend does bank officers influence discouragement? Also, closer attention should be on social interaction between the bank officer and the entrepreneur. How can social interaction between bank officer and entrepreneur be enriched to improve signalling? Further research on how banks can create a better relationship with their customers should be a focus in future studies to improve their relationships, improve signalling to minimize asymmetric information, decrease discouragement and increased access to external funds. Further future research question may be: To what extent do long lasting bank relationships decrease discouragement?

To sum up, as the research field of discouraged borrowers and in particular qualitative research in this topic is novel and generally speaking under-researched, it leaves a lot of room for further research areas. The field of discouraged borrowers must be more addressed by banks as they may be losing valuable customers or attracting the ‘wrong’ customers due to the lack of knowledge of the subject and may be even the main contributor to this phenomenon. It also may be that discouragement as self-rational mechanism can be an advantage to banks. Therefore it is important that to send out the right signals. Also the Pecking Order Theory, which is one of the most common theories used in this field hasn’t been always proven accurate and therefore a reformed

or new capital structure theory model needs to be researched to allow a more precise estimate of the financial needs of the SME.

7.5 Implications for practice and policy

This research has shown that discouraged borrowers, in other words those not applying for credit for fear that their application may be turned down (Fletschner, 2008; Levenson and Willand, 2000; Crook, 1999) have a self-rationing mechanism and therefore often occurs at the beginning of the capital structure when the business does not qualify for a loan yet but is also linked to a lack of confidence due to lack of experience. Therefore entrepreneurs that are in need of credit need to be more encouraged to apply anyway. This comparison research study is especially valuable as both countries can learn from each other. Following steps are recommended:

1) Entrepreneurs should be better informed about bank credits. Therefore information availability which explains when credits are most suitable and what requirements need to be met and whether there are possibilities that exceptions are made should be provided. As it seems in countries with bank based systems, the relationship between the entrepreneur and bank loan officer is a more personal one. Therefore, in particular in the UK banks should improve information exchange with customers and provide more information; when a bank loan would be suitable, requirements to be accepted for a bank loan should be clearer and customers should be told straight away if the bank loan will be granted or not. More encouragement and support should be provided such as consultancy on financial management and entrepreneurship to apply. This would encourage a better bank relationship and applications can be reviewed individually and also there should be a simply as possible application procedure in place.

2) In addition, on the agenda for policy makers, banks and entrepreneurs should be the improvement of bank relationships between bank and customer. To improve bank relationship can be achieved by viewing every case individually like in Austria, educating and encouraging small business entrepreneurs to stay in touch with their bank more often even when a loan is not needed. Also trust issues should be addressed to help reduce the information asymmetry problems that exist between banks and their customers as the relationship will contribute in providing reliable information about an entrepreneur's quality. This can be achieved by encouraging long lasting relationships with the bank. SMEs must be encouraged to apply for loans when needed, bank loan lending to entrepreneurs should be supported, and information asymmetry, minimize adverse selection and moral hazard and lending risk needs to be reduced.

3) An improved capital structure theory is needed to understand and estimate capital requirements better and detect potential discouragement of borrowers easier. The reformed capital structure theory must be amended to the specific local contexts to be a beneficial guidance to funders, lenders or Investors as well as entrepreneurs. While the Pecking Order Theory seems to provide a most logical simply to follow capital structure theory it doesn’t consider other factors such as current government funding supports and other local infrastructures and bank loan terms and conditions, personal networks to formal investors etc.. Therefore a capital structures theory should be adjusted strategically to the specific setting based on the local environment and cultural or national attitudes to the start-up and SMEs government (financial) support. This would help entrepreneurs to make more accurate future financial planning and help bank loan officers to know which entrepreneurs may be discouraged but suitable for a bank loan.

4) Policy makers and bank loan officers should in particular support two groups of entrepreneurs: novice entrepreneurs and female entrepreneurs. The evidence presented in this study suggests that most novice entrepreneurs and female

entrepreneurs that return to the job market after for example having been housewives but need financing however lack often tangible assets to be used as collateral despite having startups with potentials. In order to identify these potential startups policy makers and practitioner must employs competent and qualified professionals to provide excellent services to ensure that the applicants risk analysis, monitoring and evaluation, debt recovery and the handling of claims is correctly investigated. In addition, female entrepreneurs should be more supported starting up their business and help secure finances despite lacking collateral as it would provide economic weaker people with employment. Therefore policy makers should support women entrepreneurs by providing securities and help them receiving a loan when a project seems to have great potential and they have been in roles particular assigned to women as they face disadvantages due to economical differences in the UK and Austria.

7.6 Conclusion

Despite the literature in the field of Access to finance covers the field of credit rationing and discouraged borrowers of small and medium sized enterprises (SMEs), there is a lack of information obtained by entrepreneurs using qualitative research methods to identify how discouragement occurs and on what criteria alternative routes are taken. Whilst in the literature which has used quantitative methods there is a lack of research on the influence of prior business ownership experience on how that influences access to finance. In order to fill this research gap this study uses two data sets from the UK and Austria where entrepreneurs responses are analysed. The results put forward that there are differences between the UK and Austria in relation to finances used due to external factors such as government support and different national financial systems. In relation to gender the findings shows that women face disadvantages due to being in traditional roles such as being the prime care taker to children. A small number of the

businesses have been identified as having been discouraged at some point in their capital structure which took place when a business was at the beginning of their capital structure and has not reached level of maturity or at a later stage in their capital structure when it has declined from a level of stability. Implications of the results for human capital theory and signaling theory, pecking order, policy makers, practitioners and entrepreneurs have been presented.

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