

Berichte

Financing Problems of Small Firms in the Manufacturing Sector: The Australian Case*

I. Introduction and Summary

The broad purpose of this study is to investigate the major sources of funds of small firms in the manufacturing sector of the economy and the problems these firms face when attempting to raise finance internally or in the capital market. Not very much is known in Australia about the financial structure of small firms, and what are the specific difficulties, although it is well recognised that they exist. Our knowledge in these areas is based mainly on desk research and characterised by a lack of hard facts. Under these conditions a Government agency like the Small Business Bureau, set up to provide, inter alia, financial assistance to small firms, will find it very difficult to operate. An attempt has been made in this paper to provide some empirical evidence pertaining to the financing of small business. Our main source of information has been a postal questionnaire survey¹ sent to a large number of small firms in the manufacturing sector.

A summary of our findings is as follows:

1. The main proportion of initial funds was provided by proprietors' equity. Those firms which had to seek outside funds, especially debt finance, found the establishment difficult.
2. Firms successful since their establishment found it easier to obtain the initial funds, thus indicating the ability of the capital market to determine the more promising companies at the time of their establishment.

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¹ Available upon request by the authors.

3. A surprisingly high proportion of firms rely solely on equity finance.
4. Recently established companies raise less additional funds from equity, largely because low profits restrict retentions.
5. There is a strong desire to retain more profits, especially among private companies which suffer from the existence of the undistributed profit tax.
6. Small firms draw upon a very restricted range of debt finance. This is particularly true for smaller responding firms which appear unaware of the variety of types of debt finance in existence.
7. The major source of debt finance for small companies is bank overdraft and it appears to be used to finance medium-term investments. Young and less profitable firms use their overdraft facilities more intensely.
8. Although trade credit is the second most important source of debt finance, when considered in relation to trade debt, it becomes a negative source of funds.
9. Equity and debt finance taken together, the sources of major significance are bank overdraft, proprietors' equity, trade credit and retained profits.
10. The most cited reasons why small firms raise funds, in order of importance, are purchase of fixed assets for expansion, increased holdings in current assets and prevention of a liquidity crisis.
11. The majority of firms do not seek outside advice in financial matters. Those which do, typically the smaller firm, approach the external accountant or bank manager.
12. Firms not often refuse funds offered to them, if they do, high interest rates are the main reason. Unavailability of loanable funds, insufficient security and bad credit risk are perceived as the main reasons why funds were refused to firms.
13. Among small firms dissatisfaction with the capital market is widespread and it was more pronounced in the smaller and low profit companies.
14. We could not discern any outcry for Government loans or subsidies, instead recommendations were made aiming at changes in fiscal and monetary policy, better economic management and an improvement in the availability in the existing forms of lending.

II. Methods of Inquiry and Previous Research

1. *The Present Study*

The sample firms were chosen from a list supplied by the Department of Manufacturing Industries (formerly Department of Secondary Industry). This list does not encompass all firms but only those which had correspondence for various reasons with the Department. We sent the questionnaire to 8,848 firms with indicated employment numbers of 100 or less persons. This was our initial operating rule for determining whether a firm is small. On the basis of our initial definition (firms with 100 or less persons) small firms make up the vast majority of businesses in the manufacturing sector. From statistical data referring to establishments it can be seen that they account for 93 per cent of all establishments in this sector; in terms of value added and employment as percentage of the respective totals, the figures are 34 per cent and 38.4 per cent.² Our definition in numerical terms coincides with the one suggested by the Report of the Committee on Small Business (the "Wiltshire Report"). However it falls short numerically of the statistical criterion of 200 employees suggested by the Report of the Committee of Inquiry on Small Firms (the "Bolton Report"). This difference in definition can probably be justified on the ground of the relative sizes of Australian and British firms. Both above mentioned reports suggested additional factors to discriminate between large and small firms, such as owner management, relatively small market share, and independence in decision making. However, the primary selection criterion in both cases was employment numbers. Although we used employment size as the selection criterion, the secured information enabled us to discriminate between these firms on the basis of such characteristics as independence in decision making, legal status, asset size and profitability, growth in profits, geographical location and age.

The questionnaire was sent out in February 1974, and we received the bulk of the answers by mid-April 1974. The end of this month was effectively the closing date.

For the interpretation of the collected information we frequently used two-way-tables and applied χ^2 -tests to determine whether differences in

² Economic Census 68/69, Manufacturing Establishments: Selected Items of Data, ABS, Canberra.

responses to a particular question were significantly related to differences in responses of another question (e. g. use of overdraft and size of firms).

From the answers to the survey we produced 335 tables and our findings in this paper are based upon an analysis of these tables. However, they present only a small proportion of those possible. In the future we intend to expand on the study.

2. Previous Research

The capital needs of small firms have been the subject of numerous studies for a long time. The "Report of the Committee on Finance and Industry 1931, HMSO, Cmnd. 3897" (the "Macmillan Report") established that smaller business generally have difficulties in raising longer term capital due to a shortage of these types of funds for smaller companies. Subsequently in the mid 1950's the Oxford Institute of Statistics investigated in a major survey the economic and financial situation of small and medium-sized companies in the manufacturing sector. The results of this survey were published in a series of articles. Recently, the Bolton Report focussed again on the problems these firms face when raising finance. Turning to the Australian scene we have to mention the Wiltshire Report, published in June 1971, a study which was mainly based on desk research supplemented by interviews on a smaller scale. In 1973 a National Small Business Seminar was held in Canberra, organised by the Department of Secondary Industry. Its main purpose consisted in supplying the Government with information to determine the role and function of the National Small Business Bureau which began operating in 1974. Again the seminar papers presented were not mainly based on quantifiable empirical evidence, instead they reflected the informed judgement of experts in this field.

III. Characteristics of Responding Firms

We received replies from about 2,700 firms, 1,100 of which indicated that their main operations were not in the manufacturing sector. This left us with 1,545 replies from firms which were in the manufacturing sector. We shall refer to these as responding firms (RF). In some cases we calculated percentage figures on the basis of the number of replies to a particular question. We refer to these as responses to a particular question (RQ). The purpose of this section is to provide some general back-

ground information about these firms, and the following general characteristics were examined.

1. Industry Distribution

Table 1

Industrial Distribution of Firms

	Percentage of RF
Food, Beverages and Tobacco	9.7
Textiles, Clothing and Footwear	10.3
Wood, Wood Products and Furniture	9.2
Paper, Paper Products, Printing and Publishing	4.6
Chemical, Petroleum and Coal Products	5.1
Glass, Clay & other Non-metallic Products	2.7
Basic Metal Products, includes Pipes and Tubes, Casting & Forging, Smelting & Refining, Rolling, Drawing & Extruding	5.7
Fabricated Metal Products, any non-basic metal products except machinery and equipment	19.9
Transport Equipment	2.1
Other Industrial Machinery and Equipment and Household Ap- pliances	11.5
Leather, Rubber & Plastic Products & Manufacturing N. E. C. (not elsewhere covered)	13.5

2. Size Distribution of Firms

a) Employment

As already mentioned our primary selection criterion for the sample firms was the number of employed persons (100 or less) within a firm. In calculating this figure for the individual firm we included working proprietors as employed persons and counted part-time employees as a half.

Ninety per cent of the responding firms employed less than a hundred persons, while about 66 per cent employed less than 40 persons. There are a number of reasons why we obtained answers from firms exceeding 100 employees. The most obvious one is that the firm has grown in size since the relevant information has been collected by the Department of Secondary Industries.

Table 2

Distribution of Firms According to Employment Size

Employment Range	Firms (RF)	
	Absolute	%
No Reply	68	4.40
10	344	22.27
10 - 19	332	21.49
20 - 39	354	22.41
40 - 69	252	16.31
70 - 99	108	6.99
100 - 149	56	3.62
150	30	1.94
Don't know	1	0.06

b) Value of Assets

The book value of the assets of 26 per cent of the responding firms was less than \$ 50,000, whereas the assets of a further 31 per cent of firms ranged between \$ 50,000 and \$ 175,000 and a further ten per cent had assets valued between \$ 175,000 and 250,000. The remaining firms had assets exceeding a quarter of a million dollars.

Taking the size criterion of employment and value of assets together we found a statistically significant relationship in the sense that the greater the number of employees the greater the value of the assets.

c) Distribution of Profits

Fifteen per cent of those responding experienced a loss in their last financial year, 45 per cent of the firms reported profits (i. e. taxable income) of less than \$ 20,000, while an additional 27 per cent earned profits between \$ 20,000 and \$ 100,000. Regarding the growth of profits in the past, we found that 68 per cent of the firms had experienced growing profits while only 11 per cent had suffered a profit decline. Firms experiencing growth in profits are also those with high profit levels. Stationary or declining profits are a characteristic of firms with low profits. Since asset size and profit of firms are highly positively related, profit levels are a further measure of size.

3. Legal Status of Firms

The outstanding feature regarding the respondents is the fact that 73 per cent were "private companies" for income tax purposes. Of the remainder 10 per cent were partnership, 9 per cent "public companies", 5 per cent sole proprietorships and 1 per cent non profit or co-operative companies.

4. Independent Company or Subsidiary

From the replies we found that 80 per cent of the firms were neither a subsidiary nor a branch of another company. This finding is important since it appears that the majority of our respondents in principle possess independence in their decision making pertaining to financial matters of of the firm. Of the remainder, 7 per cent were subsidiaries of Australian companies and 9 per cent were subsidiaries of overseas owned companies.

5. Geographical Distribution

The geographical distribution of RF was as follows:

Table 3

		N. S. W.	VIC.	QLD.	S. A.	W. A.	TAS.	A. C. T.	NT.
Firms (RF)	Absolute	604	470	161	102	110	36	0	0
	%	39.09	30.42	10.42	6.60	7.12	2.33	0	0

6. Age Distribution of Firms

The results of our survey show that we are dealing mostly with well-established firms, since 53 per cent have been in existence for in excess of 20 years, 26 per cent for between 10 and 20 years and 14 per cent for between 5 and 10 years, while only 6 per cent were founded within the previous five years. We found that young firms are also low profit firms.

IV. The Findings

1. Initial Finance

a) Proprietor's Equity is Major Source of Funds

By far the major source of initial finance was supplied by capital contributions (equity finance) by the proprietors of the business.

Table 4
Sources of Initial Finance

Source	Funds Used, % of RF	Most Important Source of Funds % of RQ
Proprietor's Equity	80	62
Trading Bank Finance	46	22
Proprietor's Debt	24	10
Other Equity	7	3
Other Debt	11	3

The survey showed (Table 4) that 80 per cent of RF used proprietors' equity in the initial establishment of the business and for 62 per cent of RQ, it constituted the major proportion of the initial finance raised. The only other significant contributions to initial finance were funds supplied by trading banks and debt finance supplied by proprietors. Other debt and equity finance was supplied by holding companies and financial institutions such as Merchant Banks and Finance Companies.

The question of whether it was difficult to raise funds was answered in the affirmative by 41 per cent of the sample firms, whereas 49 per cent answered in the negative. The firm which found it difficult to raise initial funds relied more heavily on debt finance, a result which might have been expected.³ The firms which had problems in their establishment were those where proprietors' resources made it necessary to seek larger amount of funds from the capital market.

³ All following results of χ^2 -tests are on the 5 per cent significance level.

b) Subsequently Successful Firms Found Establishment Easier

We found that there was no significant relationship between the firms' ability to raise initial finance, the industry distribution, the number of employees, the growth of profits and the geographical location of the firm. As a result of our inquiry it follows that the larger the value of assets, the higher the level of current profits and the older the firm, the less difficult it appears to have been to raise initial finance. This would indicate that financial institutions were able to determine the more promising companies at the time of their establishment. Of course, we do not know anything about potentially promising firms which could not raise funds necessary for their establishment and those which were established but failed later. Since there exists a positive relationship between age and success of firm it is not possible to use the evidence that younger firms had more problems in raising initial finance to infer that it has become increasingly difficult in the past to raise the funds necessary for the establishment of a small firm.

As far as the legal status of companies is concerned our findings suggest private companies found it most difficult to raise funds whereas for public companies the opposite holds true. It was not surprising that firms, which were not attached to other Australian or overseas companies found it more difficult to raise initial funds than subsidiary companies. Those firms which found it difficult to initially raise funds would appear to not have subsequently satisfied their financial needs through the capital market. The majority of those firms did not consider the capital market to cater adequately for their current needs.

2. Additional Equity Finance

a) Many Firms Rely Solely on Equity Finance

The equity proportions of the additional funds raised by firms since their establishment were as follows:

Table 5
Additional Equity Funds

Equity Funds	Percentage of RF
Less than 25 %/0	21
Between 25 %/0 and under 50 %/0	18
Between 50 %/0 and 75 %/0	15
Over 75 %/0 but less than 100 %/0	15
100 %/0	21

It appears to be rather surprising that 21 per cent of the firms never used any other source of funds other than equity. This result is consistent with the comments of a number of respondents who viewed the use of debt finance as immoral.

In order to obtain more information about those firms reporting less reliance on debt finance (over 75 % equity finance) we looked at certain characteristics of our sample firms and found that industry section, independence and geographical location contributed nothing to explain this phenomenon. The size of the firm as measured by employment and the value of assets suggests that bigger firms use more equity finance. The same holds true for older firms. The more profitable firms also use more equity finance as they have more internal funds available for investment. However, our survey also showed that companies having a high growth rate of profits do not use a high proportion of equity finance. A possible explanation is that companies expanding rapidly require large amounts of funds and because of their past performance they are likely to have better access to debt finance. Furthermore we found that public companies use more debt finance.

b) Retained Profits Major Source of Additional Equity

Fifty four per cent of RF indicated that the major source of equity finance raised since the establishment of the business was retained profits. The only other source of any significance came from additional contributions by the owners of the business, namely 23 per cent. Financial institutions and associated companies supplied only little additional equity capital. This again emphasises that financial institutions do not readily supply equity funds to small firms. There are two explanations for this phenomenon which come to mind. First, owners might be reluctant to give up equity in the firm and the high proportion of those firms who used only proprietors' equity as initial finance suggests that this attitude is fairly widespread. The second reason is that there are very few financial institutions geared to supply equity funds to small firms.

c) Smaller Sample Firms Rely More on Capital Contributions

The smaller the firm as measured by its employment, value of assets and profitability the more it relies on additional capital contributions when raising any given amount of equity. (This is no contradiction to the result reported above that smaller firms use less equity.) This is

underscored by the fact that firms in existence for less than 10 years also rely on additional contributions by owners, on the presumption that younger firms are also smaller. On the other hand the smaller and younger firms tend to rely relatively less on retained profits as a source of additional equity.

d) Desire to Retain Profits

Our survey revealed that a large proportion of firms (73 % of RF) would have preferred to be able to retain a higher proportion of their profits for re-investment. We found that firms which relied more upon capital contributions for additional equity were more likely to have wished to retain more profits. The reason that firms expressed for not being able to retain more profits was overwhelmingly the existence of the undistributed profit tax. In point of fact, this was the answer of 72

Table 6
Desire to Retain More Profits by Legal Status of Firms

	Yes % of RF	No % of RF
Public Company	46	46
Private Company	81	15
Partnership	54	27
Sole Proprietorship	64	14

per cent of RQ, whereas only 9 per cent mentioned that the restraint was due to dividends required; the corresponding figure for insufficient profits was 6 per cent, and that pertaining to high tax on profits was 4 %. The striking feature of Table 6, which looks at the desire of firms to have retained more profits according to their legal status, is that a much higher proportion of private companies wish to retain more profits than any other group. When one realises that only these companies are liable to pay the tax on retained profits, then it becomes obvious why this particular tax was the most quoted reason for not being able to retain more profits. Our study reveals that it is the medium-sized and independent firms that typically express the desire to retain more profits. Surprisingly, our analysis showed that the desire to retain profits increased with the age of the firm. We would have expected the younger

firm to have relatively greater financial needs to be satisfied from retained profits. As we previously established, these firms could not satisfy their additional equity needs from retained profits.

3. Debt Finance

a) Bank Overdraft and Trade Credit are Major Sources of Debt Finance

The two most important sources of debt finance that by far outweigh any others, are Trading Bank overdraft and trade credit. From Table 7 follows that 70.3 per cent of the RF currently used overdraft facilities provided by Trading Banks, 13.4 per cent have used this facility in the past but do not currently draw on this source and 7.2 per cent have

Table 7
Sources of Debt Finance

	No Reply		Sources Currently Used		Sources Used in the Past		Sources firms Consider Available	
	Absolute	% of RF	Absolute	% of RF	Absolute	% of RF	Absolute	% of RF
Trade Credit	352	22.81	1023	66.30	84	5.44	84	5.44
Trading Bank — Overdraft	141	9.11	1088	70.33	207	13.38	111	7.18
Trading Bank — Term Loan	966	62.61	335	21.71	98	6.35	144	9.33
Trading Bank — Leasing	1053	68.11	278	17.98	47	3.04	108	10.87
C'wealth Dev. Bank — Hire Purchase	1327	85.89	91	5.89	50	3.24	77	4.98
C'wealth Dev. Bank — Term Loan	1231	79.68	133	8.61	63	4.08	118	7.64
Finance Company — Hire Purchase	1298	84.12	93	6.03	43	2.79	109	7.06
Finance Company — Leasing	912	59.07	413	26.75	64	4.15	155	10.04
Finance Company — Term Loan	1344	86.88	29	1.87	16	1.03	158	10.21
Finance Company — Other	1356	87.82	33	2.14	10	0.65	145	9.39
Merchant Bank — Term Loan	1316	85.18	139	9.00	41	2.65	49	3.17
Assurance Companies — Other	1304	84.40	95	6.15	32	2.07	14	7.38

never used an overdraft but think funds would be available if required. The no-reply-answer to a particular source of fund can be interpreted as indicating the number of firms which do not deem this source of funds to be available to them or would not envisage using. Regarding Trading Bank overdraft, 9.1 per cent fell into this category. The next most important sources of debt finance are Finance Company and Trading Bank leasing and Trading Bank term loans. We also inquired whether firms utilised or would utilise other sources of debt finance like inter-company loans, commercial bills, savings banks, and building society mortgages, Federal and State Governments loans, and found that small firms did not consider that these sources would be available to them. Maybe, the explanation for this is that many small firms were not aware of the existence of these alternative sources of funds.

b) Larger RF Use More Diversified Debt Finance Sources

We found typically that bigger firms use more trade credit, Trading Bank term loan funds and leasing, finance company leasing, Commonwealth Development Bank and Merchant Bank loans. The evidence seems to suggest that large firms are more successful in obtaining debt finance than small ones. In relation to certain types of finance, Trading Bank leasing and Merchant Bank term loans, this is obvious, since small firms are practically barred from these sorts of funds. In relation to the other sources of funds, large firms have the advantage of being better placed to offer security for and service the loans. An exception to the previous findings was Trading Bank overdraft which was preponderantly used by medium-sized sample firms. It is interesting to note that of the firms not using bank overdraft and trade credit, it was the smaller firm which considered these types of funds to be available to them if required. The questionnaire contained some more detailed questions about bank overdraft and trade credit.

c) Bank Overdraft is Major Source of Funds

We examined the question whether the small firm uses this source of funds in the traditional sense, namely to bridge the seasonal imbalance between the inflow and outflow of funds. Our conjecture was that small firms, more in need of funds than larger ones, might rely on bank overdraft to supply funds for other purposes. We received contradictory evidence for this as the majority of the responding firms indicated that they used a major proportion of their overdrafts unit for most of the

year. While they also said that they used their bank overdraft solely to finance fluctuations in current asset holdings. One possible way to reconcile these two answers is that firms draw on their bank overdraft to finance cyclical fluctuations in their current assets holdings. This is evidence of the need of small firms to use short-term funds to finance medium-term investments. Firms experiencing low profits have to draw upon their overdraft to a greater extent. Furthermore, firms which relied more heavily on debt finance since their establishment were those which intensely used overdraft as a source of funds to even out fluctuations in asset holdings. Finally it was more common for firms which had recently (within the last five years) experienced a liquidity crisis to be those who had utilised their overdraft more. In passing we would like to note that the heavy reliance on short-term bank lending makes the small firm particularly vulnerable during a credit squeeze. If this source of additional funds dries up, small businesses will find it very difficult to resort to alternative sources. Quite apart from the fact that during times of great scarcity of funds the standard of creditworthiness banks are applying, rises, excluding many small firms which are considered to be marginal borrowers, from these sources.

d) Trade Credit is a Negative Source of Funds

Our survey revealed that for 70 per cent of RF the value of their trade debtors exceed that of their trade creditors. This indicates that for small firms in the manufacturing sector trade credit is a negative source of funds. However, this is not a unique characteristic of small firms, it applies to the manufacturing sector as a whole. (See Reserve Bank of Australia, Statistical Bulletin, Company Supplement, December 1973.) This is more pronounced for the larger, more profitable and older firm in our sample. We can draw from this the important conclusion that bank overdraft appears to be the only major source of funds used by many of these firms. In examining the practice of cash discounts we found that 64 per cent of RF regularly (i. e. in 90 % of the cases) did take advantage of cash discounts. Typically, larger firms in asset size, employment and profit more often take advantage of cash discounts. The reason given for not taking advantage of cash discounts by 50 per cent of the firms was that they had insufficient funds available. This is a further, and very strong, indication of the financial difficulties small firms experience, for it amounts to borrowing funds at exorbitant interest rates. The fact that this is probably the most costly form of funds

is not common knowledge among small firms, since 10 per cent of RF said that it was not economical to take advantage of cash discounts.

e) Relative Importance of all Sources of Funds

The answers to the question "From all the sources of funds you have indicated as having used when answering previous questions would you list the six most important in terms of the magnitude of funds that each provided" are summarised in the following Table 8.

Although proprietors' equity is ranked first by most firms, it becomes apparent from an inspection of other preferences that Trading Bank overdraft is the most important source of funds for Australian small manufacturing firms. A similar picture emerges for the next two most important sources, with retained profits ranked more often as the number one choice, but overall, trade credit appears to be a more important source of funds. However, we have to keep in mind that trade credit is a negative source of funds for RF (Here firms were not asked to consider also the situation with respect to their trade debtors). Of the remaining sources, proprietors' debt finance ranks fifth, followed, with a considerable drop in significance, by term loans from Trading Banks and the Commonwealth Development Bank, leasing from finance companies and intercompany loans.

One surprising finding was that asset size and profitability had no relationship with the type of finance which provided the greatest amount of funds within the financial structure of the firms.

There was a slight tendency for small (by employment size) and young firms to rely more on proprietors' equity. This does not conflict with our earlier finding that these types of firms use less equity, since it was established that most of this equity was raised via capital contributions of owners. This reliance on proprietors' equity was also discovered for public and private companies. The only characteristic we could find with respect to overdraft was that partnerships and sole traders ranked it first more often. For bigger firms on the basis of employment size, for older companies, independent firms, as well as private and public companies, retained profits turned out to be relatively more important. Finally, trade credit was mentioned as of being the most important source relatively often by private companies, sole proprietors and recently established firms. This is consistent with our previous finding that overall trade credit is less negative for small and younger firms.

Table 8: All Sources of Funds in Order of Importance for RF

Sources	Order of Importance					
	No. 1 Absol. %	No. 2 Absol. %	No. 3 Absol. %	No. 4 Absol. %	No. 5 Absol. %	No. 6 Absol. %
No Reply	404	570	832	1076	1279	1429
Proprietors' Equity	26.11	36.92	53.99	69.68	82.73	92.19
Equity — Retained Profit	305	81	59	23	19	8
Equity — Bank	152	97	37	24	8	0
Equity — Other Financial Inst.	45	7	0	1	0	0
Equity — Other	0	1	0	0	0	0
Debt — Trade Credit	1	0	0	1	0	0
Debt — Trading Bank Overdraft	102	148	131	100	52	16
Debt — Trade Bank Term Loan	285	321	168	75	23	4
Debt — Trading Bank Leasing	41	68	67	31	14	5
Debt — Accountant's Inv. Fund	3	14	14	12	18	10
Debt — Trading Bank — Other	3	1	1	0	1	1
Debt — Commonwealth Dev. Bank H. P.	5	2	4	3	2	0
Debt — Finance Co. Hire Purchase	8	11	18	16	6	4
Debt — Finance Co. Leasing	43	27	17	10	4	2
Debt — Finance Co. Factoring	1	4	18	18	16	8
Debt — Finance Co. Mortgage	8	28	62	61	45	26
Debt — Finance Co. Term Loan	4	5	3	5	1	1
Debt — Finance Co. Other	4	0	7	0	0	0
Debt — Savings Bank Mortgage	2	0	3	0	0	0
Debt — Building Society Mortgage	2	1	2	2	2	1
Debt — Adv. Payments	2	3	1	8	0	0
Debt — Inter-Company Loan	30	27	12	14	12	3
Debt — Merchant Bank Comm. Bills	8	6	4	9	9	4
Debt — Merchant Bank Term Loan	2	5	3	2	1	1
Debt — Merchant Bank Other	4	0	3	2	0	0
Debt — Assurance Co. Mortgage	16	18	16	10	10	3
Debt — Assurance Co. Term Loan	4	5	1	1	0	0
Debt — Assurance Co.	0	0	0	0	0	0
Debt — Assurance Co. Other	0	3	0	1	0	0
Debt — Solicitors Mortgage	12	12	9	7	4	3
Debt — Federal Government	2	0	3	0	1	1
Debt — State Government	13	7	3	1	5	3
Debt — Proprietors	71	51	35	19	11	4
	4.59	3.30	2.27	1.23	0.71	0.26

4. Reasons for Raising Finance

The questions relating to the reasons why firms sought finance over the last five years were answered as follows:

Table 9
Reasons for Raising Finance

	First most important reason. % of RF	Second most important reason. % of RF
Purchase of fixed assets for expansion purposes	43.3	11.1
Purchase of fixed assets for diversification purposes ..	3.0	9.1
Replacement of existing assets	3.4	12.2
Finance of increased holding in current assets	15.0	13.7
Prevention of a liquidity crisis	12.6	13.8
Other	1.36	0.64
No response	15.4	38.5
Multiple answer	5.8	1.0

The above table demonstrates that the main reasons why firms required more funds was to finance expansion, increased holding of current assets and to prevent a liquidity crisis.

Larger sample firms in terms of employment size required funds, as might have been expected, more to finance the acquisition of assets for expansion and the associated increase in holding of current assets. Whereas smaller firms and the low-profit firms tended to be confronted more often with the necessity to obtain funds in order to prevent a liquidity crisis.

5. Specialist Advice

a) Half of RF do not Seek Advice of Specialist

In a study concerning the problems small firms face when seeking external finance we deemed it necessary to inquire whether outside specialist advice is sought. Fifty per cent of the RF make their major financial decision without the advice of a specialist. The most important factors these firms took into account when making these kinds of

decisions were the cost of funds (45 %), general availability of funds (25 %) and the financial risk associated with using a particular form of finance (12 %).

b) External Accountant is Main Advisor

A significant proportion of RF, 39 per cent, usually seek specialist advice. They most commonly approached an external accountant (52 %) or the bank manager (20 %). An additional 12 per cent approach more than one type of advisor — normally this was both an accountant and a bank manager. An overwhelming majority (88 %) of those firms which depended on outside advice said that this resulted in their obtaining funds under favourable terms.

c) Typically Smaller RF Seek Advice

We found that the smaller firms in terms of employment and the medium-sized firms on the asset basis most commonly seek specialist advice. This also holds true for the low profit firms. This tendency that smaller firms seek outside advice was further substantiated by the evidence which showed that firms in the smaller states in terms of population were more likely to seek advice. This also applied to more recently established firms. It fits into the same picture that public companies which are usually large, do not often seek the advice of an outside specialist. It therefore appears that the firms most in need of advice do seek it, however, it still remains true that a large proportion of these firms never seek advice.

d) Advised Firms Draw More on Debt Finance

The advised firms draw more on debt finance (overdraft and trade credit) and less on equity finance (proprietors' equity and retained profits). Those firms in need for funds to avoid a liquidity crisis were less likely to turn (or have turned) to outside advisors.

6. Types of and Reasons for Refusing Funds Offered to Firms

There are principally two reasons why firms were unsuccessful when seeking to obtain funds of a particular type. One is that the funds were offered but the potential borrower considered the terms unsatisfactory. The second reason is that the lender refused the funds sought. In this section we elaborate on the first part of the issue.

a) Refusing Funds Offered does not Occur Frequently

There was a surprisingly large proportion of non-responses to the question seeking the types of finance which firms have been offered but refused. This is a reflection of either the fact that this situation has not arisen so often or that RF were not prepared to answer this question. There are good reasons to believe that the first part of the explanation is quite feasible, in view of the fact that respondents were quite cooperative even when asked questions relating to their asset size and profitability. We have produced evidence that a large proportion of firms never use debt finance (21 % of RF), assuming that the described situation only arises in relation to debt finance. Another significant part of the respondents rely only, as we have seen, upon sources of funds which they can hope to be offered on terms usually already known to them (for example, trade credit). The source of funds most commonly refused by RF was Trading Bank overdraft (5 % of RF). This might appear surprising, however, it must be remembered that this source of funds is sought by most RF and therefore it only represents a small fraction of those actually seeking it. An additional 2.5 per cent of firms refused other funds offered by Trading Banks (e. g. term loans, leasing). An additional 8 per cent of firms reported to have refused various types of finance offered by finance companies (term loan, leasing, factoring, etc.).

b) High Interest Rates are Main Reason for Refusal

The most common reason for refusing funds related to high interest rates; 42 per cent of firms (RQs) mentioned this fact. Other reasons given were unwillingness to lodge security (9 %), discontent with restrictions required (7 %), refusal to give up equity (5 %). A further 30 per cent quoted more than one reason for refusing the loan (multiple answer).

When asked why they were offered funds on unfavourable terms they replied that they thought the lender had a shortage of loanable funds (27 % of RQ) that the lender's usual terms were found to be unattractive (18 % of RQ) or that the lender considered the business to be a bad credit risk.

Not unexpectedly, the analysis of the answers given by firms as to why they refused funds offered to them, revealed that in the case of

overdraft loans the security requirements were most important, whereas for finance company loans, the cost of the funds was the discouraging factor.

Of the 281 firms which had refused the loans offered to them, 171 continued to seek the funds from an alternative source and 119 of these firms were eventually successful.

7. Types of and Reasons for Being Refused Funds from a Particular Source

In this section we analyse the second reason why firms failed to secure funds, namely the refusal of the lender to provide funds. Again, our analysis of this problem suffers from a low response rate.

a) Bank Overdraft Most Often Refused

The only source of funds which has been refused to a significant proportion to firms is bank overdraft (11 % of RF). The only other ones of any significance at all have been Trading Bank term loans (3 % of RF) and Commonwealth Development Bank term loans (1.5 % of RF). Again this result is not surprising in view of the fact that overdraft constitutes the major source of debt finance. It is interesting to note that only 2 per cent of firms have been refused funds by finance companies, indicating the willingness of these companies to lend funds. Our previously cited results are evidence, however, that often their terms are considered to be prohibitive. It is worthy of mention that trade credit, the second most important source of funds, appears to be readily available and also acceptable to those who seek it.

b) Unavailability of Funds, Insufficient Security and Bad Credit Risk are the Main Reasons

As the main reasons, why firms thought that they were refused funds, respondents (RQs) quoted unavailability of funds (22 %), insufficient security (20 %), bad credit risk (11 %), and the lender's disapproval of the proposed investment (11 %). When further analysing the characteristics of firms being refused funds we found that they represented a significant proportion of firms which were unable to take advantage of cash discounts because of insufficient funds.

Out of the 281 firms that were refused of loan, 171 continued to seek funds, and 114 of those firms eventually succeeded. The most significant feature of those which continued to seek funds unsuccessfully was that they were recently established firms. Other features of lesser importance were that they were small in employment terms and had lower profits.

8. Organizations Assisting Small Firms

When asked whether small firms in the manufacturing sector were aware of the existence of a Government agency (e. g. AIDC) or private bodies (e. g. International Venture Corporation, Paternoster Partners), 53 per cent of RF answered this question in the affirmative, whereas 42 % denied to know about the existence of these agencies or firms. Of the informed firms 41 % believed that funds from these sources could have ideally met their financial needs. The existence of the above mentioned agencies and private companies is common knowledge among larger firms, measured on all bases, older companies, and public companies are more aware of these bodies than private companies, partnership and sole traders.

9. Does the Capital Market Cater for the Financial Needs of Small Firms and Possible Government Assistance? Dissatisfaction with Capital Market Widespread

In our study we gave the sample firms the opportunity to express their views about how adequately the capital market met their financial needs, and about the assistance the Government might give to alleviate any perceived imperfection of the market. We found that dissatisfied firms outweighed satisfied ones by 2 to 1. The dissatisfied firms had the following characteristics: It is usually a firm small in asset size, with low profits. Furthermore it is a sole proprietorship, a private company or a partnership (ranked in order of dissatisfaction), all of which are much more dissatisfied than public companies. Also the independent firms expressed dissatisfaction with the facilities the capital market offered. Finally, we found that firms in the more distant states, namely Tasmania and Western Australia, expressed discontent while those centred around the financial markets Sydney and Melbourne thought that their financial needs were adequately met.

When analysing additional characteristics of dissatisfied firms we established that these firms found it also difficult to raise initial finance, that they relied more upon debt finance to raise additional funds; of the additional equity they have raised, relatively more has come from new capital contributions than retained profits, and they would have preferred to retain more profits within the firm. This paints a picture of firms with inadequate internally generated equity funds which were then forced to seek more intensely debt finance in the capital market and are therefore more likely to experience possible imperfections of the capital market.

a) No Outcry for Government Assistance

The following Table 10 summarises the suggestions of RF in what ways the Government should assist small firms. An interesting general observation following from the answers is that these firms are not simply demanding a scheme of Government loans and subsidies, instead their recommendations aim at changes in fiscal and monetary policy and better economic management as well as at an improvement in the availability of funds from the existing financial institutions.

(1) Tax Changes

The call for the removal of or lowering the undistributed profit tax was particularly pronounced. We have already seen that the existence of this tax places private companies at an unfair disadvantage. The rationale behind the claim for a reduction in tax on income and profits probably is that firms are then able to supplement their financial needs out of internally generated funds.

(2) Monetary and Fiscal Policy

Most of the replies to our questionnaire were returned before April 1974, at a time when interest rates were on their way upwards but still significantly below their peak levels which they reached later.

Since the Australian economy had enjoyed a low level of interest rates for most of the time in the past it is hardly surprising that the claim for lower interest rates ranks highest on the list of recommendations.

Table 10

Suggested Assistance

Suggested Assistance	Percent of RQs
<i>(1) Tax Changes</i>	
Remove or lower undistributed profit tax	20.5
Reduce income/company profit tax	19.3
Remove or lower payroll tax	2.8
Increase Investment allowance	5.5
<i>(2) Monetary and Fiscal Policy</i>	
Lower interest rates	28.6
Other measures such as preferred exchange rate policy, greater restraints on wage increases etc.	3.6
<i>(3) Government Assistance</i>	
Supply of risk capital by Government agency	15.0
Government guaranteed borrowing	3.6
Grants or subsidies	3.0
Financial advisory service	3.4
Assistance of non-financial kind (marketing, land grants for decentralization)	3.7
Some kind of undefined help	6.3
<i>(4) Greater Availability of Loans</i>	
More short-medium term	8.8
More long term loan	13.0
More mortgage finance	2.4

(3) Government Assistance

The major call for direct Government financial assistance was for the development (or expansion) of a Government agency supplying risk capital to firms on little or no security. Owners felt a need for a service to advise them on where they could seek funds and how they should approach a lender.

(4) Greater Availability of Loans

The majority of those complaining about the lack of finance did not call for this to be solved through the creation or expansion of any

Government lending agency, but suggested that the traditional forms of lending should be made more readily available. They saw the greatest need in the expansion of the availability of long-term loans.

V. Existing Assistance to Small Firms and Government Policies

There are a few avenues open for small businesses to obtain external finance through sources other than the traditional ones where funds are available at market conditions. The following is a list of channels through which small firms might seek special assistance.

1. *Commonwealth Development Bank*

The Commonwealth Development Bank, provides, inter alia, finance for the establishment or development of small industrial undertakings. The lending policy is based on the following principles. Finance provided must not be "available on reasonable and suitable terms and conditions". Generally speaking, it does not compete with other banks (especially trading banks) or other sources of finance. The security aspect of the finance provided is only of secondary importance. Financial assistance may be granted in the form of medium and long term loans. The average loan granted in 1973/74 amounted to \$ 32,000. Loans amounted to \$ 66.1 million in the financial year 1973/74.

Equipment finance is provided in the form of hire purchase or other instalment payment arrangements, like factoring, to help small firms in the manufacturing sector to improve production and productivity. Equipment finance approvals for 1973/74 were \$ 41.0 million to 7,885 applicants.

Although the working of the Commonwealth Development Bank has a beneficial impact on the situation of small businesses, its importance in quantitative terms is not significant enough. Most importantly, however, the scope of its lending policy is fairly restrictive so that it is not able to contribute anything to alleviate the situation of small businesses which might result from a competitive disadvantage in obtaining finance as compared to larger companies.

There exists a very dense net of agents where loan applications may be lodged, since all major trading banks and most State Savings' Banks, which have a nation-wide local branch system, accept or transmit applications.

By far the main source of funds of the Commonwealth Development Bank results from loans from the Commonwealth Savings Bank. It appears therefore that the small investor, who saves at a savings bank, eventually provides the finance of small businesses. The fact that savings deposits interest rates are relatively low helps to explain why the Commonwealth Development Bank can provide finance to firms who would otherwise not be able to secure funds at market conditions. Another source of funds of the CDB stems from contributions by the Federal Government — out of consolidated revenue. In the financial year 1973/74 they amounted to \$ 20 million dollars.

The current line of thinking regarding assisting the financing of small firms is through expansion of the operation of the Commonwealth Development Bank rather than establishing any new lending organisation, such as the Small Business Investment Corporation in the United States. In this context it is interesting to note that these organisations specifically set up to help small firms obtain funds, have themselves not proved economically viable.

2. Australian Industry Development Corporation (AIDC)

The AIDC has only recently, in 1970, been established “to assist in the provision of financial resources required by Australian companies . . . for the purpose of facilitating and encouraging the establishment, development and advancement of those companies”.

The development capital is provided in the forms of equity investment, loan finance and leasing, of which only the latter two are of importance for small firms. The AIDC advances mainly medium-term secured loans at fixed or variable interest rates, shorter-term bridging finance for projects approved for longer-term financing. Also, it offers standby credit facilities and guarantees loans. The minimum size of a loan is \$ 250,000 which is well beyond the reach of the average small firm.

For the first time in 1974/75 the AIDC undertook to provide funds by lease financing.

The AIDC's capital stands now at \$ 50 million and the corporation is allowed to borrow five times its capital. The issuance of fixed interest rate securities on domestic funds for its operations are secured.

3. Trading Banks

In Australia financial intermediation is structured along the British tradition where different institutions each only provide a limited number of financial services. Cheque paying trading banks have been seen to provide a major proportion of funds to small firms via bank overdrafts and, to a lesser extent, via term loans. The Reserve Bank which is the central bank, has the power, under the Banking Act, to give directives to the trading banks regarding the classes of borrowers to whom advances may or may not be made. In mid-1975 at a time when monetary policy was extremely restrictive, for example, the trading banks were asked to give special consideration to loan applications from small firms. However, due to the higher risk associated with most loans to small firms the directive had no significant effect.

4. Venture Capital

Venture capital financiers are basically merchant banks geared to provide funds to new or young firms who appear to have considerable expansion opportunities. Although they do not provide subsidized funding, they do specialize in high risk financing by lending long term debt funds and taking equity participation in the project, and so meet a special need of small firms. There are only a few such companies and these kinds of operations have proved fairly unsuccessful for the lender. This is no wonder since even government assisted venture capital companies like the Small Business Investment Corporations (SBIC) in the U. S. A. have generally proved to be a failure.

5. Government Schemes

There exist a number of Government schemes which offer special assistance for small firms. The major ones are:

(1) Australian Industrial Development Grants

The object of the Act is to promote the development of Australian industry by encouraging increased industrial research and development in Australia. Firms wishing to embark upon R & D programs can apply for a grant which if successful will normally cover half of the envisaged annual expenditures on the project.

(2) Structural Adjustment Assistance

This is a program of assistance to individuals and firms affected by structural changes resulting from the transfer of resources from one use to another which are due to Government policy measures. Examples for these are cuts in tariffs, removals of bounties or subsidies. The assistance can be in the form of either closure compensation, consultancy grants or loan guarantees.

(3) Decentralisation Grants

The six State Governments offer financial aid and other assistance for approved industrial development in connection with their decentralization policies. This aid provides funds up to 90 % of the cost of land and buildings, freight concessions and reimbursement for consultancy fees.

6. National Small Business Bureau

The Bureau is an Australian Government agency within the Department of Manufacturing Industry whose role is to develop a program of assistance for the small business sector. It was established in 1973 and its major innovation to date has been the establishment of a small enterprise counselling assistance program. It either acts as a referral service to firms approaching it with their problems or seeks to assist these firms through a number of experienced businessmen whom it employs on a part time basis. Much of the initial discussion is free, but there is a small charge for any subsequent consulting.

7. Government Policies

A major component of the current Government's policy to alleviate the financial plight of the small firm is the establishment of a loan guarantee scheme. The basic features of the proposed scheme are as follows. Any company seeking a guarantee will have to already approached unsuccessfully at least two trading banks. The application will have to be made to the Commonwealth Development Bank. If the project is deemed to be worthy of support, the guarantee will be granted on the proviso that the company pays an insurance fee. This fee is designed to contribute towards covering any losses resulting from defaulting loans and also to offset an advantage of successful ap-

plicants being able to borrow below market rates. Any guarantee granted only covers between 50 to 90 % of the total value of the funds borrowed in order not to eliminate entirely the entrepreneurial risk.

VI. Policy Recommendations

No attempt has been made in this study to justify on the basis of economic, social or political grounds any preferential treatment for small firms in the area of finance. We recognise that it is often argued that the existence of small firms brings special benefits through the competition they create, the innovations they develop, and so on. They also are said to provide a breeding place for the development of the independent, creative entrepreneur.

In our paper we attempted to provide empirical evidence relating to the specific financial problems faced by small firms. And we found that these businesses do experience several specific financial disabilities. However, some of these are due to economies of scale in financing and are therefore irremovable. For example, we have seen that there exists a large number of sources of finance, hardly ever utilised by small firms. In most of these cases the cost of borrowing in small amounts would be prohibitive. We would not recommend that small firms be offered these funds at subsidised rates. Instead our stand is that we try to remove or reduce disadvantages, sometimes common to all firms, but which are particularly severe for small ones.

1. We have seen that the existence of the undistributed profit tax inhibits the formation of equity capital out of retained profits. Therefore, the removal of this tax is recommended.
2. Because of lack of financial management expertise within the firm we recommend that a ubiquitously available advisory service be provided. As we have discussed, the Government has already implemented a counselling service to deal with financial and other problems but this is currently only available in Sydney and Perth. We suggest that a scheme centred around educating external accountants and bank managers to provide financial advice has the advantage of making this service available throughout Australia at a relatively low cost. (After having completed this study, the Government has taken one step to make such information more readily available by publishing a booklet entitled "Sources of Finance for Small Business".)

3. As small firms rely heavily on short-term bank finance they particularly suffer from a restrictive monetary policy. Small firms would benefit greatly from more efficient economic management which does not result in the Government having to resort to an abrupt throttling of the flow of liquidity.
4. An exceptional case can be made providing financial assistance to recently established firms. Our survey showed that firms in their earlier years are starved of debt and equity finance. When this disadvantage is combined with a lack of expertise in many areas it can result in the failure of many otherwise viable firms. It is therefore felt that firms, say in their first five years should get special consideration from Trading Banks and the Commonwealth Development Bank. (The loan guarantee scheme envisaged by the Government may prove adequate to alleviate the problems of these firms.

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Zusammenfassung

Finanzierungsfragen der mittelständischen Industrie: Der Fall Australien

Die weitgespannte Aufgabe des Aufsatzes ist es, die wichtigsten Finanzierungsquellen der mittelständischen Industrie Australiens darzulegen sowie die Probleme zu schildern, denen diese Unternehmen gegenüberstehen, wenn sie ihr Finanzierungsvolumen intern oder über den Kapitalmarkt vergrößern wollen. Obwohl natürlich bekannt ist, daß hier besondere Schwierigkeiten bestehen, so ist dennoch die Finanzstruktur kleiner Unternehmen weithin unbekannt. Unter diesen Umständen ist es für amtliche Stellen wie das Small Business Bureau schwierig, zum Beispiel Finanzierungshilfen an mittlere Unternehmen zu gewähren. In dem Artikel wird der Versuch unternommen, empirische Erkenntnis über die Finanzierungssituation kleiner Unternehmen in Australien zu gewinnen. Hauptsächliche Informationsquelle ist eine Untersuchung, bei der ein Fragebogen* an eine große Zahl kleiner Industrieunternehmen verschickt wurde. Sie erbrachte hauptsächlich folgende Ergebnisse:

1. Der Hauptteil des Startkapitals besteht aus Eigenkapital. Für diejenigen Unternehmen, die auf fremdes Kapital, insbesondere auf Verschuldung, angewiesen waren, war die Firmengründung schwierig.
2. Diejenigen Unternehmen, die seit ihrer Gründung erfolgreich arbeiteten, hatten es auch leichter, Anfangskapital zu beschaffen. Dies unterstreicht die Fähigkeit des Kapitalmarktes, zum Zeitpunkt der Gründung die mehr Erfolg versprechenden Unternehmen zu identifizieren.

* Auf Anforderung von den Autoren zu beziehen.

3. Ein überraschend großer Teil der Unternehmen verläßt sich allein auf Eigenkapitalbildung.
4. Jüngere Unternehmen bringen zusätzlich zu vorhandenem Eigenkapital weniger Mittel auf; hauptsächlich, weil bei niedrigen Gewinnen die einbehaltenen Teile beschränkt sind.
5. Nichtsdestoweniger streben private Unternehmer sehr stark danach, Gewinne einzubehalten, besonders soweit sie von Steuern auf unverteilte Gewinne betroffen sind.
6. Kleine Unternehmen spielen bei der Kreditfinanzierung eine untergeordnete Rolle. Dies trifft besonders für sehr kleine abhängige Unternehmen zu, denen die Vielfalt der Verschuldungsmöglichkeiten unbekannt ist.
7. Die hauptsächliche Quelle für die Kreditfinanzierung bei kleinen Unternehmen sind Kontoüberziehungen, die offenbar auch für mittelfristige Investitionen dienen.
8. Die Gewährung von Warenkrediten ist die zweitbedeutende Fremdfinanzierungsquelle. Wenn man sie ins Verhältnis zur Verschuldung aus Warenkäufen setzt, so wird sie zur „negativen“ Finanzierungsquelle.
9. Nimmt man Eigen- und Fremdfinanzierung zusammen, dann sind die wesentlichen Finanzierungsquellen: Kontoüberziehungen, Eigenkapitalausstattung, Warenkredite und einbehaltene Gewinne.
10. Die von den Unternehmen am meisten erwähnten Gründe zur Geldvermögensbildung sind in der Reihenfolge ihrer Bedeutung: Erwerb von Erweiterungsanlagen, verstärkte Anlagen in Geldtiteln und Vorsorge gegen Liquiditätsklemmen.
11. Die Mehrheit der Firmen sucht keinen fremden Rat in Finanzierungsangelegenheiten. Diejenigen, die es tun, besonders die kleineren Unternehmen, befragen ihren Prüfer oder ihre Bank.
12. Nur selten schlagen die Unternehmen Finanzierungsangebote aus; wenn sie es tun, dann meist wegen hoher Zinssätze. Kreditknappheit, ungenügende Sicherheiten und schlechte Risiken werden als die hauptsächlichen Gründe dafür angenommen, daß umgekehrt Finanzierungsvorhaben der Unternehmen abgelehnt werden.
13. Unter den kleinen Unternehmen ist Unzufriedenheit mit dem Kapitalmarkt weit verbreitet, besonders deutlich in den ganz kleinen Firmen und bei solchen mit geringen Gewinnen.
14. Wir konnten keinen besonderen Beifall für Staatskredite oder Subventionen feststellen. Stattdessen wurden Ratschläge für die Zielrichtung und für Veränderungen der Finanz- und Geldpolitik, für ein besseres Management und eine Verbesserung bei der Ausnutzung der bestehenden Kreditmöglichkeiten gegeben.

Résumé

Les Problèmes de Financement de la Petite et Moyenne Industrie: Le Cas de L'Australie

Le sujet ambitieux de l'article est de dépeindre les principales sources de financement de la petite et moyenne industrie australienne et d'esquisser les problèmes auxquels ces entreprises sont confrontées lorsqu'elles veulent augmenter leur volume de financement par voie interne ou par recours au marché des capitaux. Quoique l'on sache évidemment que ce domaine recèle des difficultés particulières, la structure de financement des petites entreprises demeure largement inconnue. Il est malaisé dans ces conditions pour des services officiels comme le « Small Business Bureau » d'octroyer par exemple des subventions de financement aux petites et moyennes entreprises. L'article tente par conséquent de cerner la connaissance empirique de la situation de financement des petites et moyennes entreprises en Australie. La source principale d'information fut une enquête effectuée au moyen d'un questionnaire* adressé à un grand nombre de petites et moyennes entreprises industrielles. Le questionnaire a donné les résultats principaux suivants:

1. Le capital initial est essentiellement constitué de capital propre. Les entreprises qui durent faire appel à du capital extérieur, et en particulier à l'endettement, connurent des difficultés de fondation.
2. Les entreprises qui connurent le succès dès leur création furent également celles qui trouvèrent le plus aisément leur capital initial. Ceci souligne la capacité du marché des capitaux d'identifier les entreprises les plus prometteuses dès le moment de leur création.
3. Une fraction étonnamment importante des entreprises se fie exclusivement à la formation de capital propre.
4. Les entreprises récentes ne cherchent guère à consolider leurs capitaux propres de capitaux externes essentiellement en raison de la faiblesse de la part des bénéfices retenus lorsque ceux-ci sont médiocres.
5. Il n'empêche que les entreprises privées font l'impossible pour conserver leurs bénéfices, en particulier lorsque les gains non distribués sont impossibles.
6. Pour le financement par voie du crédit, les petites entreprises jouent un rôle marginal. C'est particulièrement vrai pour les très petites entreprises, non autonomes, qui ignorent la diversité des possibilités d'endettement.
7. La source principale de financement par le crédit des petites entreprises est le dépassement ou le débit du compte bancaire, qui sert apparemment aussi pour les investissements à moyen terme.

* Disponible sur simple demande aux auteurs.

8. L'obtention de crédits d'achats est la deuxième source en importance de financement externe. Si on les compare à l'endettement global dû à l'acquisition de marchandises, cette source de financement apparaît « négative ».
9. Si l'on additionne les financements propres et externes, l'on constate que les principales sources de financement sont dans l'ordre: les débits de comptes bancaires, les dotations en capitaux propres, les crédits d'achats et les bénéfices retenus.
10. Les motifs de constitution d'avoirs monétaires les plus fréquemment cités par les entreprises sont dans l'ordre: l'extension des installations, l'accroissement des placements en valeurs monétaires et la couverture d'impasses de liquidités.
11. La plupart des firmes n'aspirent pas à recevoir des conseils extérieurs en matière de financement. Celles qui ont malgré tout recours à pareille assistance, notamment parmi les plus petites entreprises, s'adressent à leurs experts-comptables ou à leur banque.
12. Les entreprises refusent rarement les offres de financement; lorsque cela se produit néanmoins, les taux d'intérêt élevés en sont la cause. En revanche, les restrictions de crédit, l'insuffisance des sûretés et le caractère inacceptable des risques motivent généralement le rejet des propositions de financement des entreprises.
13. L'on constate fréquemment dans les petites entreprises une insatisfaction à l'égard du marché des capitaux, et plus particulièrement dans les très modestes firmes et dans celles dont les bénéfices sont réduits.
14. L'on n'a pas pu établir d'attirance particulière pour des crédits de l'Etat ou pour des subventions. L'on préfère être conseillé sur les moyens de réaliser l'objet de l'entreprise, sur les modifications à apporter à la politique financière et monétaire, sur l'amélioration de la gestion et sur l'optimisation de l'exploitation des possibilités existantes de crédit.