
Owner-Managers' Preferences for Financing: A Study of Singaporean SME

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ABSTRACT:

This paper examines the findings of a sample of small business owner-managers from Singapore and their preferences for financing. Using a conjoint design the study examined the personal characteristics of the owner-managers, their strategic intent and the characteristics of their firm, and the trade offs they were prepared to make in relation to control, risk, growth, exit and financial return when seeking a particular finance option from within the "pecking order theory". Subsequent cluster and discriminant analysis found three distinct sub-populations within the sample: Group A (The Builders); Group B (Committed Owner-Managers) and Group C (Entrepreneurs). The "Builders" were found to be most resistant to relinquishing control over their business, but wanted an easy exit strategy and high financial returns. Such owners tended to be older and more likely to have been permanently employed prior to starting their venture. The "Committed Owner-Managers" were equivocal about surrendering equity control and had the least interest in exiting the business, although they also hoped for high returns. The "Entrepreneurs" were most willing to surrender equity and were generally willing to seek an exit strategy in order to secure high returns. This last group was found to have an above average education level and were more likely to have worked within a larger firm prior to launching their own business venture. Although focused within Singapore, the study's findings have implications for both owner-managers of Small to Medium Enterprises (SME) and policy makers in most nations that seek to enhance the growth potential among small businesses. They suggest that a focus on entrepreneurial education may hold the key to unlocking the growth potential of many SME. The paper concludes with recommendations for future research.

KEY FINDINGS:

- Small businesses are less constrained by a lack of access to financing than by a reluctance on the part of their owners to share equity or accept risk;
- Better education – particularly in the area of venture financing – can assist small business owners to better understand the realities of business growth and venture capital;
- The personal characteristics of the owner-manager are likely to play a significant role in determining their preference for financing and therefore their ability to grow their firm;
- Owner-managers seeking to grow their businesses could benefit from enhanced decision making tools that provide guidance in assessing the risk-return trade offs associated with different financing options.

IMPLICATIONS FOR MANAGERS:

- The study suggests that the best way to enhance the growth of SME might be to invest in management education and by raising more awareness among SME owners that growth must be associated with realistic control, risk and return trade offs.