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

By Charlton Low and Tim Mazzarol[1]

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.

Small businesses are well recognised and acknowledged as a vital and significant contributor to the economies of almost every country. The small business sector represents a statistically significant proportion of the world economy (Morris & Brennan, 2000). In many countries, the small enterprise sector is a major source of employment, revenue generation and technology (Kotey & Meredith, 1997). Similarly, Singapore's employment rate is relatively high compared to its other Asian counterparts. It is noted that in some industries, small enterprises are more effective and efficient at servicing than large firms (Kotey & Meredith, 1997). It maybe the case for Singapore which had

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attracted many multi- national companies (MNC), as there are many small enterprises which are able to provided value-added services.

The small to medium enterprises (SME) sector within Singapore is a key source of entrepreneurship and innovation, playing a vital role in that nation's economic development (Lee, 2002). SME comprise around 92 percent of all business establishments in Singapore, employing 51 percent of the workforce and generating 34 percent of all GDP (MAS, 2004). This is a similar pattern to that found in Australia, the United Kingdom and the United States. For example, in Australia the small firms sector is a major contributor to the national economy and an important source of employment (Commonwealth of Australia 1997). However, the productivity of Singapore's SME is only about half that of the non-SME establishments. The large number of low-productivity SME co-exists with a small number of more productive, large, local enterprises and foreign multinational companies (MNC). The key economic challenge for Singapore is to manage this dualistic structure so that all enterprises can contribute to the growth of the economy. This requires that a concerted effort be taken to assist SME to keep pace with the rest of the economy. Within Singapore an SME is defined as a business with less than 200 employees, annual sales turnover of below S$5 million, fixed assets of less than S$15 million, and with at least 30 percent of equity owned by Singaporeans (SPRING, 2004).

More recently, the need for SME to venture overseas especially to countries like China and India has been emphasised. Among the impediments to overseas expansion, the most important appears to be the problem of raising finance. Despite the existence of a number of government agencies and assistance schemes designed to assist SMEs in Singapore, financing, whether from public or private sources remains a major challenge to small firms when seeking to expand their operations internationally. For example, Berger and Udell (1998) reported that the primary sources of small business funding are the owner-manager, trade creditors and commercial banks. They present a life cycle for small business funding that begins with all funding from the owner-manager and that shifts toward funding from trade credit and bank loans as the firm grows and ages. Berger and Udell (1998) noted that as small firms access external debt, the owner-manager is often required to pledge personal assets to support the debt. It is because small firms' information is often opaque from lenders' perspective. Furthermore, the small business owners are usually the majority or only stakeholder in the company; as a result their entire personal and business wealth may be entwined. Therefore, it is important that the small business owner understands their firm's gearing level and its returns before applying for bank facilities

The aim of this study is to investigate and explore the preferences owner-managers within small firms have, for various types of financing, (e.g. venture capital, debt, retained profits or public listing). The findings from this study will provide more accurate insights into how small business owner-managers evaluate and select financing options for their firms. This research will assist in the development of enhanced policies within private and government agencies involved in the funding of small to medium enterprises. The views of owner-managers are highly valued and will assist other small firms in the Singapore business community in the future.

Background to SME Financing

The financing of small business has been the subject of enduring academic and political debate. It has been a continuing tradition for research, to focus on the efficiency of the supply of finance to small firms and the potential for credit rationing or finance gaps (Berger & Udell, 1998; Wilson, 1979). There is comparatively little research on the demand for finance and its effect on small firms' financial structures. On this note for small firms, these individual preferences or demand for finance may be a more powerful constraint on their growth than the supply of finance (Kotey, 1999). Policy measures that aim to improve the supply of finance to the small firms sector need to take account of firms' demand for finance alongside supply (McMahon & Stanger 1995). The financing decision is an important component of business strategic planning as it deals with the means of acquiring resources needed to realise the strategy. Factors which influence strategic choices in small firms, also determine choices of financing. The main sources of financing small entrepreneurial ventures are equity (supplied either by the owner or other investors), debt (obtained from financial institutions and secured against fixed assets) and/or retained profit (generated from cash flow). Some of this funding is used to finance seed or start-up companies while others are used for expansion. Start-ups are usually limited to the type of financing they can get, like personal savings used as equity or personally secured subordinated debt. On the other hand, companies with a proven track record have a much larger choice of financing alternatives such as banks, venture capital firms or public offerings.

The characteristics of small business have strong effects on the ability to raise funds. For instance the new start-up SME usually seeks financing through the owner's personal savings or borrowings from relatives and friends. Furthermore, those businesses that are technology based will tend to seek out funding from government-sponsored funds and grants. The SME has limitations and difficulties in sourcing finance because of the risk adverse nature of lenders, as well as moral hazards or information asymmetry that arises from agency conflicts between lenders and entrepreneurs. A survey undertaken with SME in Singapore found that more owner-managers were concerned that banks were not extending credit as readily, which could affect the firms' ability to service their loans (PSB, 2002). According to Hughes (1997) governments and private sector agencies have increased their supply of funds to the small business sector over the last decade to allow small businesses to take advantages of the opportunities. Furthermore, it was noted that the financial structure of small businesses indicates that the bulk of their funds are from personal savings of the owner-manager and retained profits from business operations (Thopmson, Lighthouse & Co. 1996; Johns, Dunlop & Sheenan 1989).

As small businesses develop, their financing needs change. Getting access to the most appropriate type of finance at key stages in their growth is crucial to the continuing success of the business. While in the early stages of development, many small businesses may rely on internally generated financing (e.g. from savings, family, friends and retained earnings), continued growth and success invariably relies on access to external finance. The equity finance is essential to start up businesses or to assist existing businesses to growth. That is, it is more likely to be important, either at the very early stages of a business growth cycle, or at key stages of expansion. If a small business does

not have access to levels of equity finance they need to sustain their capital structure, they will have problems accessing debt finance. The equity finance can be sourced through friends, family members, private equity market, business angels or seed funding. Small businesses tend to use self- financing, combined with borrowing against family home, factoring and, in some cases, may have access to equity finance to support their business initiatives. As for, Debt finance it is lent by the provider for an arranged rate of return (Interest), and includes overdraft and term loans. Debt will be an obligation of an entity to pay a specific amount of money to another entity (Peirson et al. 2003). However, some owner-managers may prefer retained profits which are earning retained in the business after dividends to shareholders have been deducted, as this might give them better control over the company. But they may have to trade-off with lower growth. It is a view among some commentators that the vast majority of SME owner-managers are unwilling to raise external equity finance because of the perceived loss of ownership and control (Mason & Harrison, 1996).

Overview of Pecking Order Theory

The "Pecking Order Theory" (POT) of capital structure states that firms have a preferred hierarchy for financing decisions. The highest preference is to use internal financing (e.g. retained earnings and the effects of depreciation) before resorting to any form of external funds. Internal funds incur no flotation costs and require no additional disclosure of proprietary financial information that could lead to more severe market discipline and a possible loss of competitive advantage. If a firm must use external funds, the preference is to use the following order of financing sources: debt, convertible securities, preferred stock and common stock (Myers, 1984). This order reflects the motivations of the financial manager to retain control of the firm (since only common stock has a "voice" in management), reduce the agency costs of equity and avoid the seemingly inevitable negative market reaction to an announcement of a new equity issue (Hawawini & Viallet, 1999).

The business owner-managers' choices of financial acquisition depend on their willingness to share ownership with investors, and the status of the firms in an industry (i.e. start-up, growth or stable). These two determinants are correlated because, for instance, start-up firms are limited to seek external finance sources and the owner-managers are the only ownership in the business; whereas, growing firms may have more choices for external finance because potential investors and lenders can foresee potential earnings from these growing firms. As such the owners of these firms are able to make choices of capital acquisition based on whether they want to dilute their equity to investors or not. As a result, it is the owner's decision that has to be weighed against the possibilities and potential trade-offs. The potential trade-offs are categorised into five types, namely control, risk, growth, exit and return. By definition, control is emphasised on the power to determine financial ownership of a company. Risk is defined as the possibility of losing raised capital to failure projects or business. Growth is to define the degree of business progression within an industry. Exit is to determine whether to sell out an existing business by merging with another company. Return is defined as earnings received from a company's sales performance and investment.

Demand for finance is expected to follow a pecking order of internal equity, debt and external equity (Myers, 1984). However, it is frequently observed that a large number of small firms are averse to using external equity (Berger & Udell, 1998; Binks

1991; Hughes 1997; Hughes & Storey 1994). Whereas those firms that are unwilling to use a source of finance, the pecking order will be truncated at that point. However, if supply conditions restrict a firm's ability to use particular sources of finance then the pecking order may operate in its entirely. It should also be noted that the majority of SME are unlikely to be attractive to Venture Capital (VC). They lack the key ingredients of intellectual property (IP) that can be protected and sufficient points of differentiation to allow them to return to the investor the necessary capital gains. Influences on an owner-manager's ability and willingness to move down the pecking order are to be explored. Therefore, this study examined the SME owner-manager's perspective on their preferred finance options versus their potential trade-offs.

The Theoretical Framework

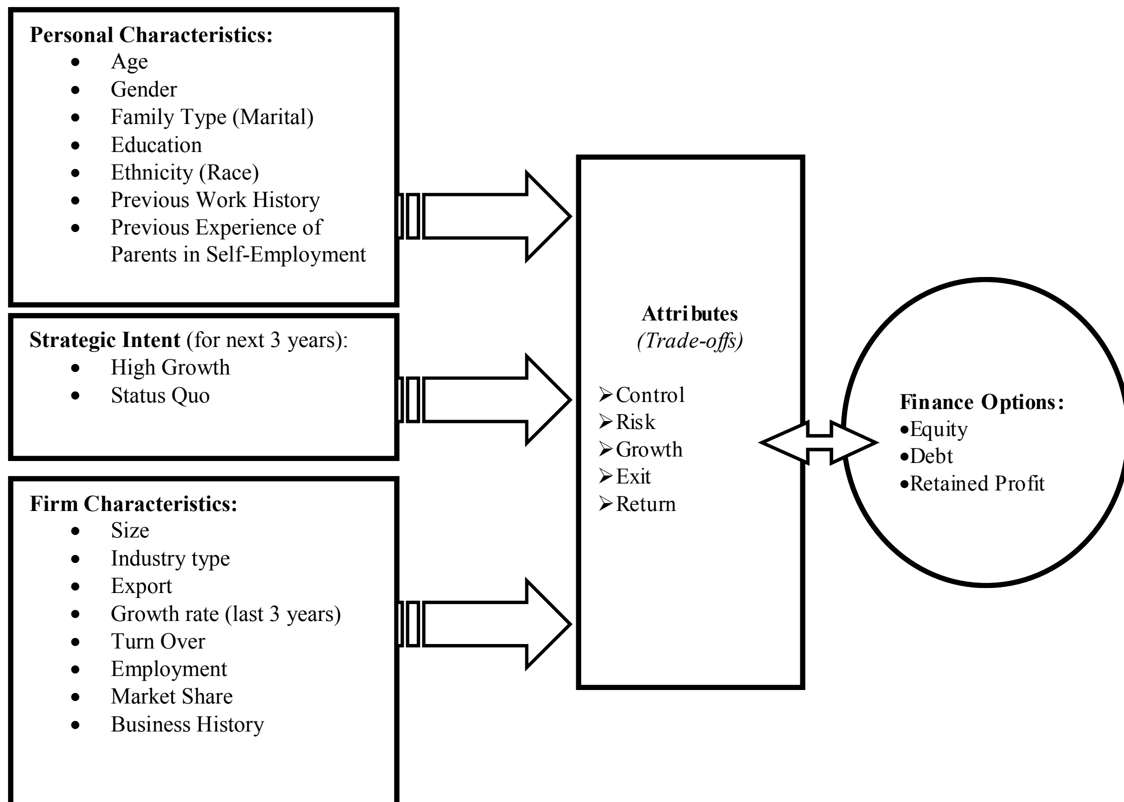
In every economy either old or the new, they have one thing in common for small business people. All require access to capital in order to compete and exploit opportunities in the global market place. As we know, capital access is the largest problem for the development of minority businesses and poses potential challenges for small businesses wishing to grow. Thus we need to have a deeper understanding of small business financial structure. An analysis of the financial structure of small businesses indicates that the bulk of their funds are from personal savings of the owner-manager and retained profits from business operations (Thompson Lighthouse & Co. 1996; Johns et al 1989). Small businesses also rely heavily on short-term credit (supplier's credit, credit cards and bank overdraft), which is renewed several times and used as long-term finance (Davidson & Dutia 1991; Thompson Lighthouse & Co. 1996, Johns et al 1989).

The proportion of long-term debt in the financial structure of small firms is relatively small, with the bulk in the form of personal loans (Thompson Lighthouse & Co. 1996). However, there are limitations in using personal equity and short-term debt as principal sources of finance. This is because inflation erodes the equity base of the business over time and owner/ managers may not be able to provide additional funds to meet increases in working capital requirements even where growth is curtailed (Vickery 1987). Hence, the growth of the firm would be further complicated. In addition to their relatively high cost, short-term funds will increase the financial risk of the firm if the earnings from business assets (particularly non-current assets and permanent working capital) are not properly matched with interest and principal payments on these funds (Pierson et al 2003). Liquidity will become an issue and may eventually lead to insolvency. Under-capitalisation in small businesses is therefore associated with insufficient long-term funds (Finley 1984; Davidson & Dutia 1991).

The Research Model – Owner-Manager Preferences for Financing

Figure 1 illustrates the research model used in this study. Within the model the dependent variable is the finance option selected within the POT hierarchy. The key independent variables are the personal characteristics of the owner-manager, the strategic intent of the owner-manager, and the characteristics of the firm (Storey, 1994). With respect to the preferences for financing, the key attributes are control, risk, growth, exit and return.

Figure 1: The Research Model: Preferences for Financing



Several key variables were defined and tested in the study. These were Control, Risk, Growth, Exit, Returns and lastly Finance Options such as Debt, Equity and Retained Profits. The Pecking Order Theory (POT) suggests that as the owner-manager shifts their capital sourcing up the pecking order from retained earnings to IPO, there could be a series of trade offs that they must undertake. These may require changes to the levels of risk, control and rate of growth. For example, a firm that chooses to achieve total control by the owners and grow via retained earnings, will experience lower risk and high control, but will probably only realise modest growth levels. In comparison, the firm that seeks and secures external venture capital will trade off control for faster potential growth but will also face higher risk. There are many different definitions of the above variables. Everyone from young teenagers to adults with different levels of education background has a different understanding of the meaning of each defined term. Hence, the researcher's definition helps to clarify and align the defined terms used.

Personal Characteristics

The individual characteristics are those attributes possessed by the small business owner-manager. The primary demographic characteristics found to be important in previous research are age, education and experience (Foley, 1985; Begley & Boyd, 1986; Lussier, 1995; Steiner & Solem, 1998). An aim of this study was to analyse the relationship between

the characteristics of a firm's owners-managers (tenure, age, formal education and function experience) and their preferred finance options.

Firm Characteristics

The characteristics of small firms have an important impact on their ability to raise capital. Factors such as the stage of product development, risk, availability of capital, firm type, ownership structure and sales history affect the sources and amounts of capital that are the most appropriate to pursue (Timmons, 1997). In addition, the success of the owner's search for capital will be jointly determined by the investment preferences of the capital providers. Investment considerations of the capital providers include level of investment, type of firm, length of time, expected return on investment, growth potential and risk tolerance (Carter & Van Auken 1992). Different investors often have different motivations for and expectations from their investments in small firms. An objective of this study was to explore these issues from the perspective of the owner-manager.

Strategic Intent

A business exhibits strategic intent when it relentlessly pursues an ambitious strategic objective and concentrates its competitive actions and energies on achieving that objective (McGraw-Hill Online Learning Centre 2003). Hamel and Prahalad (1989) postulated that in order to achieve success, a firm must reconcile its end to its means through its strategic intent. Different strategic intent options can be followed, such as the near-term buy out versus long-term growth objectives of our computer entrepreneurs, will embrace different weighted combinations of these goals and objectives (Hamel & Prahalad, 1989). This study sought to understand the way owner-managers make financing decisions, and to determine if growth in the SME sector is contingent on their securing financing for their venture. The owner-manager's preference for financing the SME may be influenced by various factors (such as control, risk, growth etc.) and may follow the Pecking Order Theory.

The Research Questions

The present study sought to explore several research questions:

1. What is the level of control, risk, growth, exit and return that the SME owner-manager is prepared to accept in the capital structure of their venture?
2. If so, to what extent is the SME owner-manager prepared to accept preferred financing options such as IPO, M&A, Debt financing and Equity Financing?
3. What effect do the personal characteristics of the SME owner-manager have on decisions relating to the capital structure of the venture?
4. What role does the firm's strategic intent play in the capital structure of the SME and does it support the Pecking Order Theory?
5. Do firm characteristics (e.g. size, industry type) have any significant effect on the selection of financing options of the SME?
6. What business practices do different types of owner-managers (if any) adopt in their firm?

Methodology

The study employed a conjoint experimental design. While the conjoint method requires greater information processing from respondents than do traditional surveys, it offers a superior means of evaluating the preferences of respondents in circumstances where there is a need for a trading off, of different variables in a decision process (DSS 2005). The key variables were identified through focus group and personal interviews and were used to develop the measure. In this study, the Statistical Package for the Social Sciences (SPSS) software and Bretton-Clark Conjoint Analyser were used for building the questionnaires and data analysis. The three methods of stimulus presentation most widely associated with conjoint analysis are the trade-off, full-profile and pair wise comparison. The choice between presentation methods focuses on the assumptions as to the extent of consumer processing being performed during the conjoint task and the type of estimation process being employed (Hair et al. 1998). The full-profile method was selected for this questionnaire presentation. The full-profile method is not flawless and faces two limitations. First, if the number of factors increases, the possibility of information may overload to the respondents. Second, the order of factors listed in the stimulus card may have an impact on the evaluation. The researcher needs to rotate the factors across respondents when possible to minimise order effects. The full-profile method is recommended where the number of factors is six or less (Hair et al. 1998). Whereas in the study, we had only 6 factors (Control, Growth, Exit, Risk and Return) and rotation was done with sixteen profiles.

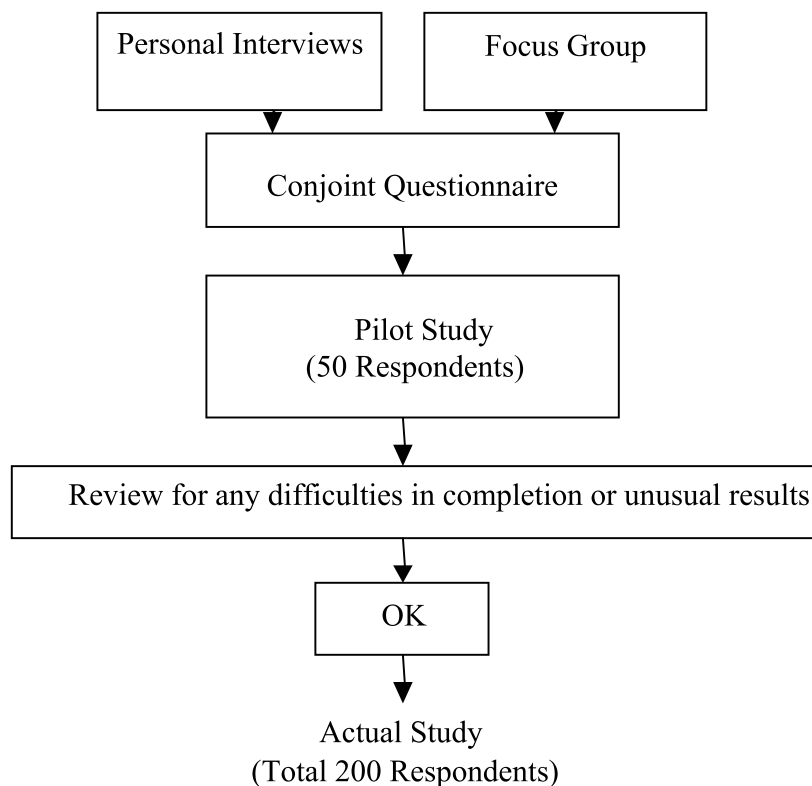
The conjoint questionnaires presented to the participants had a series of financing options involving some trade-off between such key variables as Control, Risk, Growth, Exit and Return. Each of these variables is briefly defined as follows:

- *Control* – the level of ownership over equity in the business (e.g. less than 50% or more than 50%);
- *Risk* – small, moderate or high risk of losing raised capital within the business;
- *Growth* – using the industry average as a base, whether the firm was growing at a slower or higher level than the average, or whether it is about the average;
- *Exit* – the ability and opportunity to retire or sell-out from this business; and
- *Return* – whether the respondent considered they had received good returns, reasonable returns or poor returns for what was invested into the business.

The participants' evaluation of the 16 profile designs was examined in a face to face interview. Each profile described a set of combinations of different levels of the variables of Control, Risk, Growth, Exit and Return. The full-profile method accommodates both ranking and rating methods. The rating method was selected using a 10-point scale on which the respondents indicated the degree to which they were likely to choose that particular profile as their preferred finance options and trade-offs if available. A score of 1 for a profile showed that they would never contemplate choosing it. A score of 10 indicated that they would definitely choose it if it existed. Each owner-manager was interviewed on a confidential basis and provided additional background information to their responses to the conjoint questionnaire. The questionnaire was pilot tested prior to its deployment in the field and was translated into English, Chinese, Indian (Tamil language) and Malay. It facilitated those participants who did not speak English as their first language. The responses rates, it was felt, would be higher if not all questionnaires

were in English. The development of this survey instrument involved the translation and back-translation of the question items from English to these other languages and is within the capabilities of the author to do this. It has been said that pilot studies are likely to be "*under discussed, underused and underreported*" (Prescott & Soeken 1989, pp 60), and full reports of pilot studies are rare in the research literature (Lindquist 1991; Muoio et al. 1995, Teijlingen et al. 2001). Different data collection methodologies were used to gather data such as by conducting a focus group study and personal interviews with respondents to assist in developing the questionnaire, pre-testing of construct and measure. Figure 2 illustrates a flow chart of the research procedures.

Figure 2: Research Procedure Flow Chart



To conclude, the research methodology started by conducting a pilot study before proceeding with the actual data set. This allowed collected data sets to have validity and be more reliable. There was total of three research methods used. These were: i) Conjoint, ii) Cluster and iii) Discriminant analysis. The SPSS and Bretton-Clark software were used in the research findings.

Sample Population and Data Collection

The target respondents for the survey were drawn from the owner-managers of Singapore's Top 1,000 SME. The definition of the owner-manager was that they were

the primary decision maker for the company with predominate control over equity. They also had responsibility for the day-to-day operations of the business. A total of 200 owner-managers were interviewed for the study after having been contacted and agreeing to participate. Interviews were undertaken over a period of three months by sub-contract data collectors who were trained by the researchers.

Each respondent was asked to complete a short paper-based questionnaire that collected demographic and other background data (i.e. such as personal demographics, firm characteristics, strategic intent and the 16 profiles that are used for the analysis). The respondents were pre-notified and appointments arranged for the interview. The respondents were from a range of industry sectors, including retailing, wholesaling, transportation, construction, finance and insurance services which are typical of the SME community found in Singapore.

Upon formulating the first questionnaire, pre-testing was done on 50 respondents. The respondents were owner-managers of Small Medium Enterprise (SME). The collected 50 questionnaires (pilot study) were coded and tested with the SPSS software and Bretton-Clark Conjoint Analyser software. This was particularly important because pilot studies can be "time-consuming, frustrating, and fraught with unanticipated problems, but it is better to deal with them before investing a great deal of time, money, and effort in the full study" (Mason & Zuercher 1995). This was designed to note any errors and allow minor changes to be made on the questionnaires, although ultimately no amendments were made. The field survey was then commenced; data was collected, coded and checked for any missing data and outliers. There were a total of 24 cases with outliers, adjusted or uncompleted questionnaires leaving a final useable sample of 176 for further analysis.

Data Analysis and Findings

The main part of statistical analysis was done by Bretton Clarke Conjoint Analyser, while the background data was analysed using SPSS software. With the collected data of 176 samples, the descriptive statistics of attributes levels had mean and standard deviations, which provided useful information for the study. It is then calculated to get the average importance of the *GROUP* attribute levels and *INDIVIDUAL* attribute levels. It allows us to view and investigate whether there is any need to analyse by clustering the data sets with the Variables (Control, Risk, Growth, Exit and Returns). This gives an overall preference set. The Choice-based approach not only employs a unique form of presenting stimuli in sets rather than one-by-one, but it also differs in that it directly includes interactions and must be estimated at the aggregate level. Many times the research objectives create situations not handled well by traditional conjoint analysis; hence these alternative methodologies can be employed (Hair et al. 1998). Hence, Choice- based conjoint technique was used in this study as to get an overall preferred set. As for Clustering techniques, these have been applied to a wide variety of research problems. Researcher Hartigan (1975) provides an excellent summary of the many published studies reporting the results of cluster analyses. Lastly, discriminate analysis enables the splitting of a set of observations into two or more groups. It is used to distinguish between two or more predefined 'groups'. The analysis identifies those variables that contribute most to the differences between groups.

The Bretton-Clark Conjoint Analyser tested a total of 13 factors of 5 variables. These variables are Control, Risk, Growth, Exit and Return. It was used to identify the preferred variables. The results from Conjoint Analyser identified five key factors, consisting mainly of LT50 (level of ownership over equity control less than 50%); RETGOOD (Returns to investment good); GROAV (Growth average compared to industry); RISKHI (Risk higher of losing raised capital) and OUTEASE (Ease of exit from business). The Cluster analysis was conducted and segmented the data into 3 different groups. Group A had 56 cases, Group B had 68 cases and Group C had 52 cases out of the total 176 cases used in the final analysis. This enabled the similarity groups with respective levels of variables to cluster together. With the clustering of groups, the discriminate analysis was further explored.

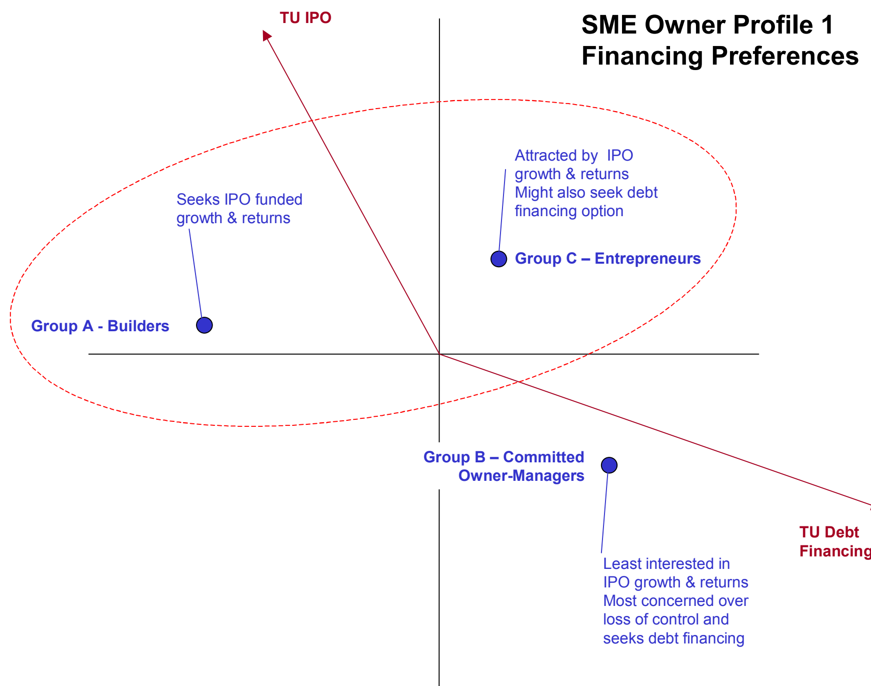
The findings showed that the Group A profile was the least willing to surrender greater than 50 percent equity control, was seeking a relatively easy exit from the business, and was most concerned over financial returns than the other two groups. By comparison the Group B profile was average in its willingness to surrender greater than 50 percent equity control, was the least interested in an easy exit and was seeking higher financial returns. Lastly, the Group C profile was more willing than the other two groups (A & B) to surrender greater than 50 percent control over equity, was average on ease of exit and was seeking above average returns. Hence, all the 3 groups could be categorised as follows. Group A were named as “Builders” due to their desire for high growth, but unwillingness to relinquish control; Group B was named “Committed Owner- Managers” due to their desire to remain within the firm and to be satisfied with modest growth, and Group C was named as “Entrepreneurs” due to their willingness to take on more risk and relinquish control if required. The groups were further discriminated using the demographic, firm characteristics, strategic intent and business practices data. The calculation of mean score of the various attributes and the total utility (TU), enabled us to get the overall preference choice of financing. The Total Utility (TU) finding shows that IPO was the most preferred and Equity Financing the least preferred. It will be discussed in greater detail in the following chapter.

With the background data and conjoint findings, this allowed the researcher to have a deeper understanding of individual owner-managers’ preferences of financing and trade offs. However these attributes in this study may lose some detail in order to get an overall picture. Nevertheless, this actual study allowed us to shed some insights of small business owners-managers of their preferred structure and finance options.

Discussion of Findings

The results are illustrated in a Figures 3 to 7 which are self explanatory with regard to the research questions. Figure 3 shows the positioning of the various groups of owner-managers’ financing preferences in relation to their preferences for post-deal IPO, VC, M&A and Debt financing. Figure 4 illustrates the position of groups in relation to the demographic profile such as age and education level. Figure 5 illustrates the respondent groups Strategic Intent and Figure 6 illustrates various groups of owner-managers with firm characteristics. Figure 7 illustrates the various groups of owner-manager with respect to business practices. The total of 5 mapped diagrams show the overall picture of the findings resulting from the statistical analysis.

Figure 3: SME Owner Profile 1 - Financing Preferences



The above diagram allows us to have a better picture of the findings of owner-managers' financing preferences. Group A (Builders) are shown as seeking IPO funded growth and returns. Group B (Committed Owner-Managers) are quite different from Group A and Group C in their *CHOICE PREFERENCES*. This is not surprising and confirms their labelling as "Committed Owner-Managers". These respondents want to keep control and are happy to be funded more by DEBT than EQUITY. By comparison the other two groups are more likely to be growth focused and willing to explore alternative funding models. Group C (Entrepreneurs) are attracted by IPO growth and returns; however they might also seek debt financing options. Analysis of the differences between these three groups using discriminant analysis found that Group B (Owner-Mangers) was significantly different from the other two groups in their CHOICE preferences. This was also reflected in the discriminant map of *"SME Owner Profile 1: Financing Preferences"*. These different Groups have indicated the preference and trade-offs over several variables compared to overall group preference.

The findings illustrated in Figure 4 show that Group A (Builders) is older in age, more likely to be ethnically Chinese and have been permanently employed prior to starting their venture. The Group B (Committed Owner-Managers) has an average profile with no specific differentiation. However, Group C (Entrepreneurs) has a better educational background with a higher proportion with post-secondary qualifications and is more likely to have worked for larger organisations.

Figure 4: SME Owner Profile 2: Demographic

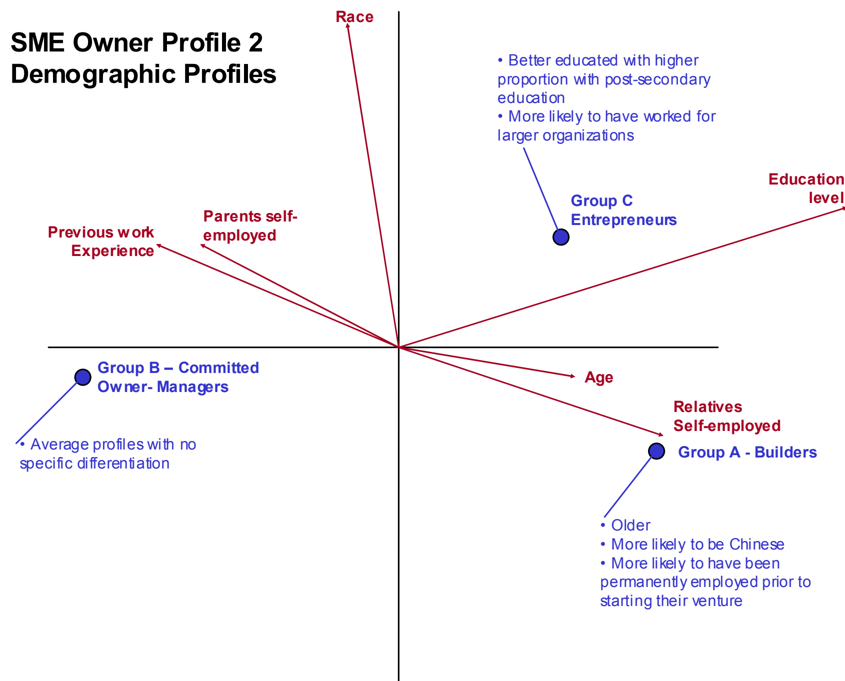


Figure 5: SME Owner Profile 3: Strategic Intent

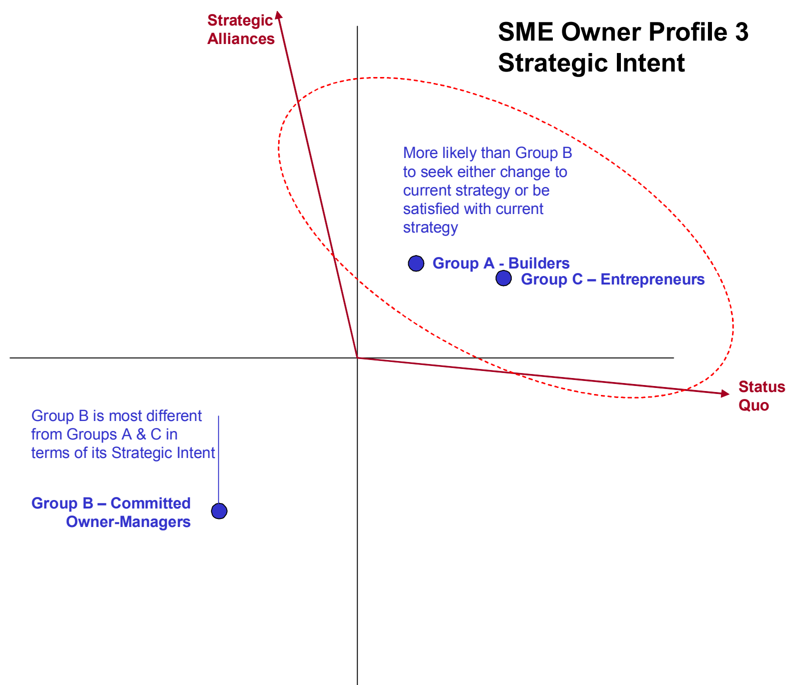


Figure 5 provides an overall picture of the statistical analysis in relation to Strategic Intent. The Group B (Committed Owner-managers) is the odd one and most different from Group A and Group C in terms of Strategic Intent. Group A (Builders) and Group C (Entrepreneurs) have similar strategic intents. Both are more likely than Group B to seek either a change to current strategy or be satisfied with current strategy. The researcher noted that this study is not in position to make a meaningful explanation for strategic intent as the goodness of fit to the model is weak. More measures could be used together with current ones for future research.

Figure 6: SME Owner Profile 4: Firm Characteristics

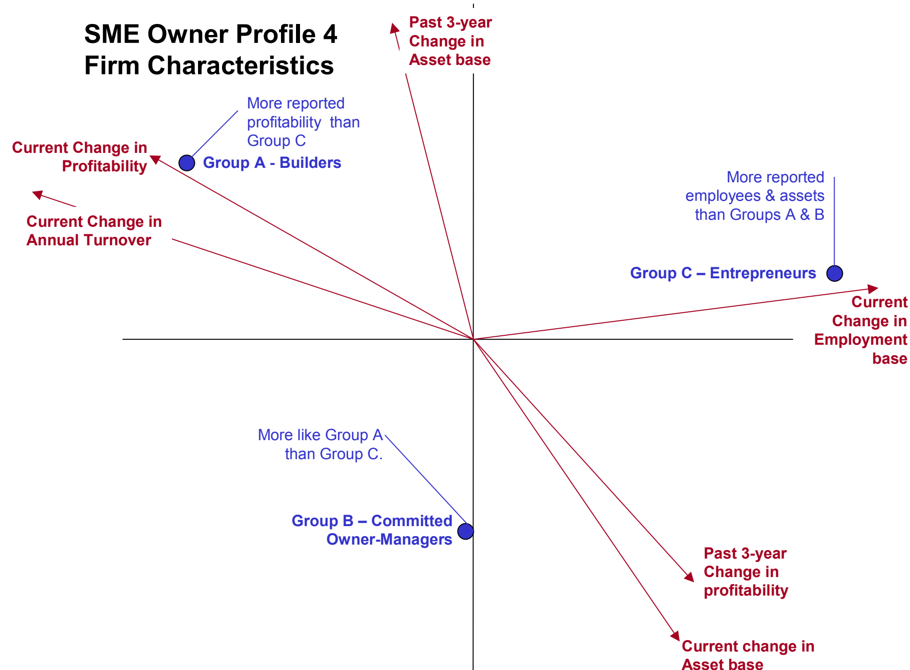
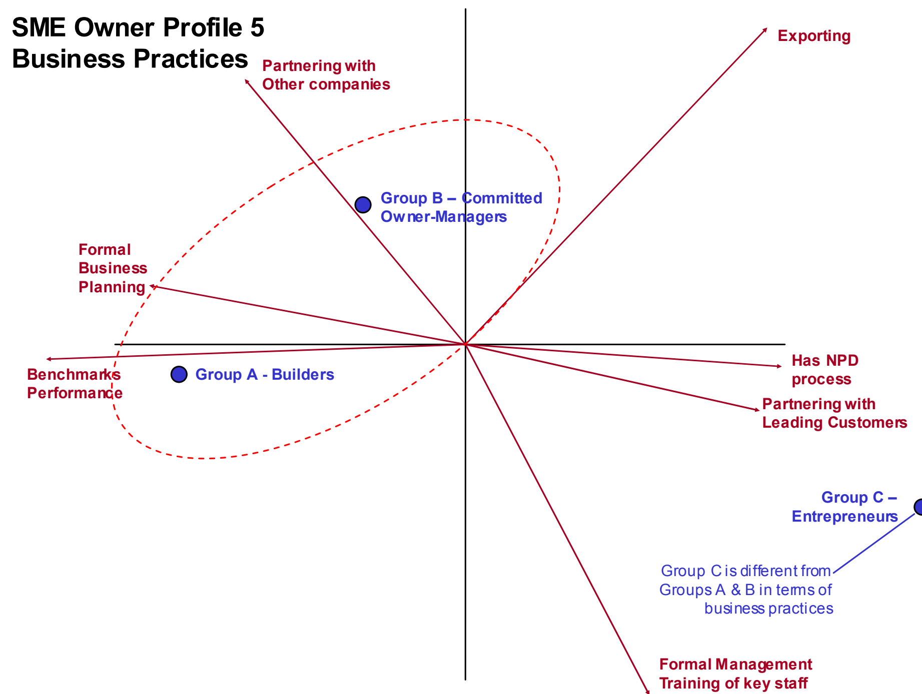


Figure 6 shows the relationship between firms' characteristics and financing preferences. Of all the 3 groups, Group A (Builders) reported more profitability than Group C (Entrepreneurs). Group B (Committed Owner-managers) was more closely affiliated to Group A than Group B in terms of firm characteristics. Group C (Entrepreneurs) are reported to have more employees and assets than Group A and Group B. This maybe the reason for Group C (Entrepreneurs) being less profitable, as Group C could have invested in human capital and machine technology.

Finally, as illustrated in Figure 7, Group A (Builders) and Group B (Committed Owner-managers) are positioned nearer to each other with respect to business practices. They would likely have formal business planning, partnering with other companies and will benchmark performance. Group C (Entrepreneurs) differed from Group A & Group B in terms of Business Practices and would likely have a formal process for innovation or new product development as well as partnering with leading customers.

Figure 7: SME Owner Profile 5: Business Practices



The findings shown in this study identified 3 core groups respectively. The Group A (Builders) profile is the least willing to surrender greater than 50 percent equity control, was seeking a relatively easy exit from the business and is most concerned over returns than the other two groups of B and C. Whereas Group B (Committed Owner Managers) profile is average in its willingness to surrender greater than 50 percent equity control, is the least interested in easy exit and is seeking higher returns. Lastly, the Group C profile is more willing than the other two groups (A & B) to surrender over 50 percent control over equity, is average on ease of exit and is seeking above average returns. Group A preferred to seek IPO funded growth and returns. They were also older, more likely to be Chinese and have been permanently employed prior to starting their venture. They were also more likely than Group B to seek either changes to the current strategy or be satisfied with current strategy. In comparison with Group C, Group A reported profitability is higher and uses different business practices. Group A was named as Builders as they build the firms from scratch. However, they may need to be educated with different finance options to increase their knowledge of market expectations and criteria of loans so as to make them realise obtaining funds do not come without risk involvement. Therefore, they should be more flexible and have realistic expectations when making preferred financing decisions. Table 1 summarises these findings.

Table 1: Summary of the Overall Findings

	Group A	Group B	Group C
Financing Preferences	Seeks IPO funded growth and returns	Attracted by IPO growth and returns Might also seek debt financing option	Least interested in IPO growth and returns Most concerned over loss of control and seeks debt financing
Demographic	Older and more likely to be Chinese More likely to have been permanently employed prior to starting their venture	Average profiles with no specific differentiation	Better educated with higher proportion with post-secondary education More likely to have worked for larger organisations
Strategic Intent	More likely than Group B to seek either change to current strategic or be satisfied with current strategy	Most different from Groups A & C; in terms of its strategic intent	More likely than Group B to seek either change to current strategy or be satisfied with current strategy
Firm Characteristics	More reported profitability than Group C	More like Group A than Group C	More reported employees & assets than Groups A & B
Business Practices	Different from Group C	Different from Group C	It is different from Groups A & B; in terms of business practices

Group B is a pool of committed owner-managers of average profiles with no specific differentiation. They are attracted by IPO growth and returns and might also seek a debt financing option. They are most different in terms of its strategic intent to Groups A & C. As for firm characteristics, they are more like Group A than Group C. However, their business practices are different from Group C. Group C are better educated with a higher proportion with post-secondary education and are more likely to have worked for larger organisations. They are least interested in IPO growth and returns. However, they are most concerned over loss of control and seek debt financing. As for the firm characteristics, they are reported to have more employees and assets than Group A and Group B. This Group is more likely than Group B to seek either changes to the current strategy or be satisfied with current strategy. In terms of business practices, this group is

different from Group A and Group B. Most small firms and owner-managers will never be able to raise all the funding they would like from their respective banks and financial institutions or their choices of preferred finance options. In this crude sense there will always be deficiencies in the funding sector which are equal to the differences between the needs and wants for funding.

Conclusions

This research has revealed three promising areas of study. First, a contribution to theory suggested by the findings that personal characteristic shows a relationship with the critical attributes of Control, Risk, Growth, Exit and Return. However, it should be noted that the goodness of fit for Strategic Intent was weak and as noted in this study other additional measures could be used together with the current ones. Also firm characteristic results reveal that the goodness of fit is just above average. Both were not taken into consideration for the conjoint analysis. It probably not a good control variable to be used in this study. Evidence from the literature review suggested that owner-managers make decisions with respect to trade-offs and Pecking Order Theory which is largely emphasised in larger firms, whereas most firms in this study are of micro to small and medium enterprises. More advanced research tools such as Entrepreneurial Oriented Assessment (EQA) could be used in future research for screening purposes of owner–managers that are identified in this study.

However with the background data and conjoint findings, this allowed the researcher to have a deeper understanding of individual owner-managers' preferences of financing and its trade offs. However these attributes in this study may lose some details, in order to get an overall picture. Nevertheless, this actual study allowed us to shed some insights of small business owners-managers of their preferred structure and finance options. Second, the finding suggested that small business owners have several clusters within its group. Each particular group has a different demographic background and different preferences of financing. Most SME don't grow due less to a lack of capital as to a decision by the owner-manager/ entrepreneur NOT to grow. It was noted especially in the Group A, that they should be more flexible and have a realistic expectation in making preferred financing decisions. Group A may need to educate itself with different finance options so as to enable them to understand market expectations and the criteria used to establish loans. Group A of owner-managers will not be able get all the "Goodies" and avoid the "baddies". Third, the findings suggest that owner-managers preferences for financing may be a function of personal characteristics to a large extent. Those with above average education and a background that allowed them to be exposed to how larger firms work were more likely to fall into the "entrepreneur" group. This has policy implications for Government and its policy makers. It 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.

SME are so crucial that the Singapore government has initiated SME21, a ten-year strategic plan to create vibrant and resilient SME that will enhance Singapore's competitiveness and economic growth (SPRING 2004). Despite Singapore's economic success and its tremendous interest in its local enterprises, no study has been conducted

to examine the owner-manager's preference for financing. Hence, this study of owner-managers in Singapore SME can provide valuable insights and information for other local and foreign SME.

Group B (Committed Owner-managers) may perhaps be the most difficult and hardest to push and shift their thoughts as they are basically only interested in day-to-day operations. If we want to grow small business at faster pace, we should identify the members of group C (Entrepreneurs) with their interests and support them with various schemes. Further, the need exists for a real tool that will explore to what extent this group is willing to give up control for various trade-offs before proceeding to institute educational changes. Hence, the Government may want to emphasise more research for screening purposes and introduce additional education tools which promote more training or management seminars to owner-managers of specific cluster in each SME sector. This realistically allows owner- manager to have better choices in financing decision making, especially to those lacking work experience in large firms.

Another possible limitation of research is the number of attributes examined in the conjoint analysis. These research attributes may not be as comprehensive. Nevertheless when conducting the focus group and in the research process, the researcher and the focus group of owner-managers felt strongly that the variables used are the most appropriate. Hence, there might have been "minor" factors left out in order to get a better picture. But it seems unlikely that there are other factors that are more important than the top-rating factors found in this present research. Nevertheless, the researcher has done his best wherever he could within his abilities.

The research sample or population of interest shown in this research represented a fraction of industrial sectors in Singapore. It could have focused further to produce a more specific group, but the greatest challenge for this research would then have been to identify and contact the population of interest. Previous research studies have not examined financial companies such as venture capital etc and bankers' preference (trade-offs) mode of lending to borrowers, through a conjoint study. It would add to our understanding of what is the lenders' perspective and which of the above market segments meet their criteria. The research area of scope could be extended beyond the shores of Singapore if time permits. It will be interesting to extend the research study to other Asian countries and conduct a comparative study between various South-East Asia countries such as Malaysia, Indonesia, Philippines and Thailand.

To conclude, it is proposed that if small businesses are to fulfil the potential as identified by Mazzarol et al. (1999), policy and resources need to realign to maximise the social and economic contributions of pro-growth businesses. Hence together with this research study, we hope the findings will enable us to have deeper understanding and insights of the owner-manager's mind in their preferred finance decision making. The different trade-offs and individual preferences of some owner-manager to be realign to the actual overall market. From this study, it is suggested that the owner-managers' preferred financing may be unfulfilled as shown in the findings especially for Group A. Education policy maybe the area for government policy makers to emphasis further and assist them by providing more courses for these owner-managers in small business with better market knowledge in order to compete globally.

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