"THE IMPACT OF THE BANKING CRISIS ON THE AVAILABILITY OF CREDIT TO SME'S"

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Abstract

This paper examines the impact the current banking crisis is having on the availability of vital credit to small and medium enterprises. Such a study is important in order to determine where the credit chain is broken and how it can be fixed. The literature review is split into three sections which examine the three theoretical frameworks; Quantitative easing, Lending plan strategies and Ratio analysis, highlight the advantages and disadvantages. It concludes by exploring the governments' new proposal of a pillar banking system.

Interviews carried out with five local business owners further delve into the issues which surround the availability of credit. From here it shows first hand how these small businesses are dealing with the lack of credit on a daily basis and how they have adjusted their business accordingly.

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Chapter one

Introduction

1.1 Introduction

> *"From basket case to superstar and back again – or almost. One has to wonder: How did all this happen? How did an economy where employment doubled and real GNP quadrupled during the "Celtic Tiger" era from 1990 to 2007, come to have GNP contract by 17% by late-2009, with further falls in 2010, the deepest and swiftest contraction suffered by a western economy since the Great Depression? The adjustments faced by the nation are monumental."* (Kelly, 2010, Pg 1)

One area to be severely hit by the economic downturn is the small and medium enterprise (SME) sector. Credit availability has become a challenge in itself with many companies having to cease trading as the lack of credit becomes too great. According to Business Barometer, during the period 1st January 2010 to 31st October 2010, 1600 companies had a liquidator appointed to them; approximately 60% of these companies were not solvent at the time of liquidation i.e. they had not filed an E1 declaration of solvency. This paper will examine the normal flow of credit against the current situation. (Business Barometer, 2011)

SME's are recognised world-wide to be a key source of vitality, innovation and flexibility in both thriving and emerging and developing economies. They are accountable for large volumes of job creation and make valuable improvements to innovation, productivity and economic growth. However, limited access to external funds for investment in the SME sector impacts on the capacity to raise investment per worker, and thereby improve productivity and wages. (OECD, 2006)

Central to this paper is the use of conceptual frameworks developed by funding agencies to identify operational weaknesses in the strategies proposed by the Central Bank and National government to restart the flow of credit to SME's. This examination of the impact on lending will be critiqued using three theoretical frameworks; Quantitative easing, Lending plan strategies and Ratio analysis. During this process the three theoretical frameworks will be examined from the theoretical and practice perspectives with a view to highlighting the anomalies which have arisen in the market place as a result of each. It is by measuring the relative impact of these anomalies that each framework should be judged.

Central to each framework is the presumption that the normal flow of credit should follow three paths, from the government to the banks to the small and medium enterprises (SME). However, since the collapse of the banking sector, banks are not lending and hence the SME sector is suffering badly. This paper explores the impact of this at three levels;

- Macro environment   – Government – Quantitative easing
- Meso environment   – Banks   – Lending Plans
- Micro environment   – SME   -   Ratio

Each strategy is aimed at a different stratum and will be examine independently.
The primary objective of this paper is the need to create a balanced push/pull credit facility where the amount of credit needed in the short and medium terms is balanced by provision mechanisms which are tailored to the needs of the SME sectors rather than the intermediate lenders i.e. the banks.

1.2 Research Questions and objective

There are many aspects to this problem; political, economic and international but the focus of this study is on the accounting and finance issues raised by the restrictions on credit to the SME sector of the Irish economy. Traditionally referred to as liquidity management in academic papers, studies have mostly emphasised the complexities of working capital and liquidity issues with companies in examinership or high risk entrepreneurial enterprises. However the key research questions in this study take a much broader view and seek to examine the impacts on small businesses who are working to ensure survival inspite of the current credit environment. Thus the research questions in this study are:

1. What is the current situation regarding the availability of credit? How volatile is the credit market
2. What are the published strategies to deal with the problem?
3. What are the views from SME owners who rely on credit to finance their businesses on an ongoing basis?
4. What possible accounting and finance strategies should be considered to reduce the risks to SME of a recurrence of this problem?

Chapter 2

Literature review

"The Government must remember that the model of creating a supportive environment for indigenous small businesses has been, and must continue to be, the corner stone of our economic success." Ian Martin, SFA Chairman.

(Martin, 2011)

2.1 Introduction

With small and medium enterprises (SMEs) accounting for well over 90 per cent of all Irish non-financial businesses and almost 75 per cent of employment, these workhorses of the economy have never received proper recognition. (Mazars, 2011)
This chapter is organised in three broad sections; section one briefly outlines each of the three theoretical frameworks, highlighting the main elements of each and the stated benefits of each. Section two adopts a more critical stance and critiques each of the frameworks in light of the current Irish business environment. A key question here is in identifying the gaps between the theory and practice. The final section examines the government announcement of the new 'pillar' banking system.

2.2 Three theories

2.2.1 Quantitative easing theory

"Quantitative easing refers to changes in the composition and/or size of a central bank's balance sheet that are designed to ease liquidity and/or credit conditions. Presumably, reversing these policies constitutes "quantitative tightening," but nobody seems to use that terminology. The discussion refers instead to the bank's "exit strategy," indicating that quantitative easing is something different."(Blinder A, 2010)

Although credit conditions are getting easier than they have been due to the Bank's and the Government's actions, they remain tight for many businesses. This gives a reflection to the extent of which it is obvious that banks are tightening their lending standards. If credit is better allocated now there is a better chance of sustainable growth in the future.

Some UK financial institutions have raised new capital from private sources limiting further shrinkage of balance sheets. The first area to always feel the impact of tightening credit in a recession is the SME's. It is unrealistic to expect lending conditions to return to the standard of 2006/2007 anytime soon (Posen A, 2009)

The biggest question on the road to recovery is the outlook regarding the availability of credit for SME's. Once the economy begins to recover, will there be sufficient investment to fund growth of business trade and liquidity needs and to fund new businesses. This kind of dislocation for the real economy is what explains why financial crises have historically been so costly, beyond their direct impact on wealth and short-term demand.

With continuous financial sector problem comes the negative effect on the rate of economic growth, even after recession. Of course when financial crisis of such scale is experienced, it is expected to leave lasting effects, but the extent of the lasting damage is far from being entirely out of our hands. (Posen A, 2009)

Quantitative easing provides the economy with a much needed increase in funding, and reduces the risks of inflation falling below the set target. But the ECB will not let inflation get too out of control. The ECB will take all necessary precautions to ensure risk not only stays above target but also that it does not rise too high either. If inflation looks set to rise too high, the ECB will sell the assets it had already purchased and increase pressure on downward spending.

Economic conditions can and do shift rapidly, especially in the current economy. By delivering low and stable inflation, the ECB will ensure inflation stability which is of upmost importance to the economy. (Bank of England, Quantitative Easing policy)

2.2.2 Lending plans

In order to gain an understanding of how a banks lending plan works, the AIB's SME lending plan for 2010/2011 will be examined in detail. (AIB, 2009)
AIB published a lending plan for 2010/2011, specifically designed for SME's. In this plan they state that they are:

> *"Fully committed to supporting its viable sme customers through the economic cycle, to supporting national recovery and to supporting its commitments to government in respect of capitalisation and NAMA."*

As part of their 2010/2011 plan, the bank is aiming to increase the availability of new or additional credit to SME's by €3bn including support on working capital. It is also predicted that they increase their proactivity in the SME marketplace in order to promote the availability of credit to viable businesses. By promotion of credit worthy projects with advice, credit facilities and banking services, it is hoped that more new SME start-ups will be supported.
It is proposed throughout that the banks want to engage more with their SME customers who are seeking financial and practical solutions to their trading difficulties.

Total SME lending declined through 2009 – SME credit in Ireland fell by 4% in 2009 to €32.3bn. Still, it is claimed, the demand for SME credit among AIB customers remains weak with demand continuing to fall through 2010. Credit quality also deteriorated in 2009 due to impaired SME loans AIB expects that recovery in international trade will filter through to an export led recovery in GDP, with growth levels of 2.5% expected in 2011 and further growth of 4% in 2012. (AIB, 2009)

In May 2010, AIB launched a new €500m small business recovery scheme. They are also seeking to obtain additional EIB funding in order to continue to support investment in SME business. An Asset Finance fund is being promoted to finance the purchase of plant, machinery and equipment as well as the PromptPay fund to accommodate the short term working capital needs of SME's and professional service firms. They also hope to reposition their invoice discounting service with amended terms and conditions to broaden its availability to more SME customers. A range of actions aimed at providing support and guidance to SME's and to help ensure business confidence within SME's have also been established. These include the promotion of AIB's SME start-up package and support along with the launch of a new SME helpline to provide additional information and guidance to SME's.

AIB believes that the vast range of initiatives in its SME lending plan will help to increase the level of demand from viable SME customers for. AIB is committed to delivering the SME lending plans objectives and demonstrate strongly their open for business commitment. (AIB SME lending plan, 2010/2011)

2.2.3 Ratios

In theory, the most accurate measure of how well a company is performing is not by their financial statements but by carrying out a ratio analysis. It is these ratios which will indicate just how well a company is performing and just how liquid the company actually is. By using ratio's as a matrix to measure the health of a business, it can be determines how much money SME's actually need. There are a number of categories of ratios which need to be considered.

1. **Profitability Ratio's**
    - Gross profit margin
    - Return on capital
2. **Liquidity Ratio's**
    - Current ratio
    - Acid test ratio

3. **Activity Ratio's**
   - Debtors' days

4. **Gearing Ratio's**
   - Capital gearing ratio
   - Debt/equity ratio

In today's business environment, the use of business ratios has become extensive. This is because by using ratios to measure operations you can gain important insights into performance. Ratios can be used as tools which will help in the evaluation process of a business. They help in gaining a better understanding of a businesses financial health by detecting problems before they become full scale disasters. Liquidity ratios can be used to establish if a business has the means to meet its existing obligations. This is achieved by comparing a business's assets to its liabilities. If a business fails to maintain enough assets to balance with its liabilities, it is not a very financially healthy business.

By identifying problem areas early it is possible to make the necessary adjustments in time to avoid larger problems. A debt to equity ratio can help to determine the long-term debt versus the equity. Any business who has disproportionate debt-to-equity ratio generally suggests that the owner has financed their company too aggressively. There is the possibility of this being a positive risk but the debt must be covered by future growth. Establishing how well a business uses its resources may involve an activity ratio. An activity ratio may involve comparisons such as sales versus inventory. (Weetman, 2003)

Managing any size business requires much focused attention to every detail. If the business owner uses an activity ratio and discovers that the sales volume does not reflect the inventory turnover, they may conclude that too much stock is being kept on hand. This type of information can inform a business owner as to whether or not they need to make adjustments to keep the company productivity high.

Business ratios can be used in a variety of forms to delve deeper into the productivity of a company in order to make more informed decisions. It is much easier to make adjustments before a problem gets out of control than it is to make corrections after-the-fact. Keeping a close eye on the financial well-being of the business can also help prevent a company from finding itself so far in debt that no amount of future growth can offset the interest costs of the debt. (BCG matrix, 2011)

2.3 What is wrong with each?

2.3.1 Quantitative easing

Quantitative easing has also been referred to as "economic recovery based on new debt creation" (The economic collapse, 2010). It has the ability to lower the value of the Euro, thus for every new euro added to the system, it decreases the value of each existing euro by just a little bit. Over the past two decades, bubble after bubble has caused tremendous economic problems, and now all of this new money could give rise to new bubbles.

There is also the problem with Inflation. When the economy recovers, it might be difficult to take out the excess money supply causing uncontrollable inflation. In this case, investors may lose confidence in the economy due to risk of inflation. Consideration is also needed about the danger of 'bond bubble'. Bonds and gilts will rise in price encouraging investors to buy and interest rates to fall. This could cause a bubble in the price of gilts which could collapse at a later stage causing long term interest rates to rise at an early stage in the business cycle.

The large Irish drain on the exceptional liquidity facility at the ECB should be understood as a type of regional quantitative easing. When the ECB accepts repos of collateralized loan assets from Irish banks, the ECB indirectly increases the amount of credit available to Irish businesses through the domestic banks. As things stand in the interbank market, there is little or no "leakage" of this available credit to the Euro core. It will not cause inflation in Germany, or even in Ireland. It will just improve the dire credit conditions in Ireland. (Moneyweek, 2009)

Credit is tight in Ireland because there is little hope that the economy will grow, and if banks are retentive today it is because they were far too flexible in the good old days.

2.3.2 Lending policy

One word which appeared frequently throughout the banks lending plan was "Viable." So what exactly is viable and who decides this?

> "The viability of a business is measured by its long-term survival, and its ability to have sustainable profits over a period of time. If a business is viable, it is able to survive for many years, because it continues to make a profit year after year. The longer a company can stay profitable, the better its viability." (Murray, 2011)

Banks normally only agree to loans with businesses whose affairs they are familiar with. Even with well known customers, loans are only provided if they are deemed to fall within the expected requirements of ordinary business. Our economy is based largely on credit. Credit is the blood line of the economy and SME's depend on its availability to survive. Each bank will develop its own policies and procedures of safeguarding the quality of credit provided.

So does this make the banking system the weakest link? Many would argue yes. Effectively the banking system could refinance itself by lending to SME's. In return for the credit availability sme's could refinance the banks through lodgements to keep the flow of cash moving. However, according to a report published by ISME on 14th March 2011, 79% of firms still outline banks as making it more difficult to access finance, while 48% have been refused changes in their banking facilities (up from 33% in Dec 2010). It is also reported that banks have been reducing their overdraft facilities, creating greater cash flow problems for SME's. (ISME, 2011)

In the ISME quarterly bank watch survey it indicates that the issue of bank credit remains a serious problem for the economy, with little or no improvement in the last two years.

The results also confirm that the number of applications for credit remains muted, mainly due to general economic uncertainty and a perception that the banks will not entertain their credit requests.

The survey, conducted in week ending 11th March, attracted 1026 responses, provides a strong indication of the current SME lending environment. For instance, 25% of respondents had requested a change in their banking facilities, similar to the previous quarter but significantly down on the corresponding period last year. 48% of companies who applied for funding in the last three months were refused credit by their banks, compared to 33% in the previous quarter. 79% of firms outlined that the banks are making it more difficult for SMEs to access finance, deterioration on the 68% in the previous quarter. 87% of respondents have been with their banks for over 5 years, while 43% are customers of over 20 years. Of the 52% approved for funding, 72% have drawn down the finance either fully or in part. 75% of requests were for changes to overdrafts, with 21% for term loans. 46% of SME owners are aware of the Credit Review Office, while 44% are aware of their bank's appeals procedures, both up on the previous survey. (ISME, 2011)

2.3.3 Ratios

Further to the delayed payment report by ISME stated above, it was also revealed that out of 700 small companies interviewed,

- Actual average payment period in Ireland for SMEs is 72 days, a slight improvement from 73 days in the autumn survey.
- 43% are experiencing delays of 3 months or more.
- Both big business and state agencies continue to delay payments.
- Ulster counties are the slowest at 80 days, while Connaught is best at 61 days.
- Distribution firms are waiting 79 days, while Wholesale is shortest at 64 days. (ISME, 2010)

According to ISME chief executive, Mark Fielding, "Cash flow is the lifeblood of any small business and it is imperative to have a realistic and adequate cash flow for the day-to-day running of the firm. If small business has to pay within 30 days but is forced to give 90 and in some cases 120 and more days credit to the financially more powerful big business and state organisations, then this acts, not just as a constraint on growth but as a threat to the very existence of many small businesses and is the 'Achilles heel' of the SME sector."

Fielding also states that business liquidity can be difficult to control for many SME's, something which is made even more difficult when late payments hamper cash flow even further. Because many small businesses are waiting longer to be paid by larger companies they are suppressed even further showing that any legislation regarding payments is fictitious. (ISME press release, 2010)

In a report released in December 2010, it states that that in reality 42% of smaller enterprises are continuing to suffer because of deliberately delayed payments from both state agencies and larger businesses in excess of three months. Although the number of credit days has reduced and enterprises are waiting less than reported in the last three quarters, the delays are still excessive and are creating cash flow difficulties for small business. (ISME, 2010) According to ISME, the latest live register figures confirm that 444,000 people are now claiming assistance; this denotes an increase of 3.2% (13,700) on last years figures. In 2010 58,731 redundancies were registered equating to the loss of 233 jobs per day. (ISME, 2010)

It was predicted that 2011 would continue to see unemployment rise as SME's attempt to deal with the terrible trading conditions over the Christmas period due to the erratic weather pattern. Reductions in the average household wage, along with an increase in taxes have only worsened the problem. ISME has estimated that a third of companies will shed jobs in the next year. These companies have already stated their economic uncertainty due to rising costs and poor credit availability. (ISME, 2010)

It has become apparent that there is a critical need for the introduction of new policies which will enable business confidence to return and restart investment and employment creation. In the current economy SME's see no future as there is a lack funding to aloe for expansion. These businesses are merely surviving, as opposed to growing. Unless immediate action is taken, thousands of more jobs will be lost in the next year. The Government needs to make "Job Creation and Retention" the main focus for 2011.

The ECB is extremely inflation-averse, and it is true that the core of the Eurozone is not at the moment in need of monetary stimulus. However, some countries in the periphery, particularly Ireland, are badly in need of credit loosening. One of the biggest drags on Irish GDP growth is the current tightness of credit availability for domestic businesses. The ECB has the ability, unlike the Federal Reserve, to implement regional monetary policies, easing credit availability in chosen peripheral markets without impacting the core. Perhaps this is a policy tool which should be exploited more fully. (Connor, 2010)

2.4 How does the government propose to fix the problem?

2.4.1 Pillar banking system

Following the stress test carried out by the Central bank this year, the results showed that AIB, Bank of Ireland, Irish Life and Permanent and EBS must raise €24 billion to cover potential losses on loans and asset sales to reduce in size to viable levels. This brings the bill facing the banks to €70 billion and will lead to the almost outright nationalisation of the Irish banking system. The Irish banking sector will be radically reshaped into just two banks, Bank of Ireland and a merged institution comprising AIB and the building society, EBS.

The restructuring of the banks is the third plank of the new Government's attempt to draw a final line under the banking crisis following the Central Bank's stress tests on bank capital and funding. The restructuring is aimed to break with the country's toxic banking past and to put the banks on a firm footing. In essence, the banks need to be smaller, more focused on core operations, better funded and better capitalised. (Carswell S, 2011)

Ireland's government is to shrink the once booming banking sector by €73.6bn into two "pillar" banks as it seeks to find a way out of the three-year financial crisis that has crippled the economy. According to Jill Treanor for the Guardian, the government is taking majority control of all existing players on the Irish high street. The "pillar one" bank will be built around Bank of Ireland, already 36%-owned by the state and now under instruction to find €5.2bn of capital. It will shed €30bn of assets but retain its link with the UK Post Office. The "pillar two" bank will be created out of the troubled Allied Irish Banks (AIB) – which needs €13bn of fresh capital – and the building society EBS.

A third bank, Irish Life & Permanent, until now able to survive without a direct injection of taxpayer funds, needs €4bn. It is in the process of selling its pensions and investment businesses in two stock market flotations. Its retail bank, Permanent TSB, is expected to be folded into one of the two pillar banks. (Treanor, 2011)

Last year, all Ireland's banks had been given a clean bill of health under European-wide stress tests announced in July – only to need emergency funding from the IMF and the EU four months later.

2.4.2 What this means for SME's.

In a review by the central bank of the lending strategies to SME's, it found that more improvements need to be made regarding planning, credit reviews and board involvement. In a statement, the bank stated that strategic planning by the institute would be improved if boards became more actively involved at an earlier stage. More detailed information would also help banks use plans for risk management. The SME sector is large and diverse and it offers banks revenue streams beyond interest income, including deposit revenue and transaction and advisory fees. However banks must develop the particular skills required for lending required for SME lending in order to price risk and manage it effectively. As SME lending is essential for future economic performance, these positive steps the banks are taking to facilitate this business in a controlled manner are welcomed.

Avine McNally, director of the small firms association states that while the review by the central bank outlined the progress made by some banks in relation to SME lending, it also highlighted a weakness in the area of lending skills. She claimed that lending to the SME sector required particular skills. Obtaining a greater understanding of the environment in which small firms are trading will ultimately translate down to the operational level and assist with credit decisions and ensure that those firms who require credit can access it easily and promptly.

With almost one in four small businesses in Ireland not getting enough credit, Ireland has a very serious problem and this situation could potentially lead to 62,500 small business closures and 200,000 jobs lost. (O'Brien, Madden, 2011)

Whilst there have been some welcome developments in access to credit, the reality for many small companies is that they face increased delays in decision-making, stringent conditions and for some refusals, which are either curtailing expansion plans or resulting in the closure of the business and the loss of jobs. The banks have become too risk-averse and that is why the Government needs to act immediately. (Callan, 2011)

The restoration of access to credit is critical for small firms along with restoring confidence to the economy. The Government also need to reduce business costs if firms are to survive, grow and create sustainable employment.

While further investment is being made in the banking system, the Government is ignoring the issue of credit for small firms. With one in four small businesses continuing to experience decreases in the availability of working capital, the Government must swiftly deliver on their commitment to introduce a loan-guarantee scheme to small businesses. Until the banking sector crisis is fully resolved and things improve on the labour market front then the supply/demand for credit will remain subdued.

Many viable small businesses lack two key ingredients to access financial support from the banking system: they lack collateral because of the property bubble collapse and associated high negative equity and they lack a good track record over the past two to three years because of the worldwide economic recession and loss of consumer confidence and spending at home.

The only way to solve a fiscal or unemployment crisis is through generating economic activity. The Government must remember that this model of creating a supportive environment for indigenous small businesses has been, and must continue to be, the corner stone of our economic success. The small business sector is the engines of recovery. Now is the time for Government to recognise the key role they play in our economy, and to provide the small business sector with access to credit and with a confident and supportive environment to ensure future success and job creation. (Martin I, 2011)

2.4.3 Other possible solutions

In a national survey carried out on small business directors, it emerged that they would like to see a dedicated business bank established, modelled on the former State-owned ICC bank, with the primary function of supporting SMEs through providing working capital, credit management solutions and assistance with business planning. In addition, directors are calling for an SME Bond Scheme to be set up, whereby a pool of money could be ring-fenced and made available to SMEs through a Government backed savings bond. . (Institute of directors in Ireland, 2011)

The Government could also stimulate the SME sector by offering Irish investors a tax break for placing money on deposit in Irish banks rather than in foreign banks or elsewhere. A second tax incentive could then be offered to the banks to lend this money specifically to the SME sector – thereby creating an SME fund with lending at normal commercial terms. Such a scheme would breathe life back into the SME sector and stimulate long-term growth, with the cost to the exchequer likely to be outweighed by the potential tax revenues generated.

Directors are also calling for urgent legislation to amend the bankruptcy laws in Ireland as outlined in the Programme for Government. The 12-year term under Irish law is considered cumbersome and draconian and is a barrier to start-up companies and entrepreneurs. Systematic changes are needed in the treatment of business failures as the current system disincentives entrepreneurship and means that those who fail are often disinclined to try again.

Greater support is needed for small companies which are focused on the domestic market, in particular the indigenous food sector. In addition, there is a view among directors that the process for awarding public procurement contracts favours large international companies and that it should be made more accessible to indigenous SME businesses. (Institute of directors in Ireland, 2011)

However, it is inevitable that sme's require different financing requirements at each stage of their development, policies should aim to ensure that markets can provide financing for credit-worthy SMEs and that innovative SMEs with good growth prospects have access to appropriately structured risk capital at all stages of their development. There is a significant number of SMEs that could use funds productively if they were available, but cannot obtain finance from the formal financial system. (OECD, 2006)

2.5 Conclusion

Throughout this paper all three theories have been examined in isolation. Quantitative easing is an attempt at a quick fix solution developed by the banks in order to inject money into the economy. This can also have its negative impact considering that for every new Euro introduced, it will lower the value of all existing Euros. Lending plans set out the guidelines for SME credit and borrowing. AIB have set aside €3bn in an attempt to restart the SME sector and restore confidence in lending/borrowing. However, in the latest statistics published it shows that difficulties of access to finance, refusal of revised facilities, and reduced overdrafts are all still key problem areas for SME's.

Ratio analysis was examined in the context of how SME's need to maximise how they spend their money as it is now worth less. This is done through a series of ratios including liquidity and profitability. By calculating these ratios, SME's are in a better position to evaluate how liquid they are. In a 2011 report by ISME, it was reported that a major problem for SME's was their debtor days, with the average being 72 days. It also uncovered that larger companies and government agencies were the slowest payers. Finally the pillar banking system is proposed as a solution to all of the above problems. It is not possible to fix only one sector, each must be stripped down and elements of all three interwoven in a coherent and cohesive manner. This must be managed by a different, independent agency in order to restore life to the economy.

Chapter 3

Methodology

3.1 Introduction

This chapter illustrates the methodology of the research. It begins with a definition of research methodology, then moves on to identify the aims, objectives, designs, approaches and participants involved in the research, discussing the processes for collecting and analysing the data and explaining the rational for using the chosen research design tool.

3.2 Definition of research methodology.

Research is an intensive and purposeful search for knowledge and understanding of social and physical phenomena. Research is a scientific activity undertaken to establish something, a fact, a theory, a principle or an application. It is an academic activity. Research can be defined as a scientific and systematic search for pertinent information on a specific topic.

Clifford Woody defines research as "defining and refining problems, formulating hypothesis or suggested solutions, collecting, organising or evaluating data, making deductions and reaching conclusions and at last carefully listing the conclusions to determine whether they fit the formulating hypothesis."(Woody, 1924)

3.3 Research aims and objectives

The key research questions in this study take a broad view and seek to examine the impacts on small businesses who are working to ensure survival in spite of the current credit environment. Thus the research questions in this study are:

1. What is the current situation regarding the availability of credit? How volatile is the credit market
2. What are the published strategies to deal with the problem?
3. What are the views from SME owners who rely on credit to finance their businesses on an ongoing basis?
4. What possible accounting and finance strategies should be considered to reduce the risks to SME of a recurrence of this problem?

3.4 Quantitative and Qualitative research

Trochim (2006) sets out two dominant paradigms in research; quantitative and qualitative. Quantitative research involves the collection and analysis of empirical data predominantly numbers. The usual form of data collection method is questionnaires and data analysis normally involved the use of a specialist software package such as SPSS. Given the exploratory nature of this research topic, a quantitative approach was decided against of two grounds. Firstly in questionnaire surveys there is normally a strong possibility of a low response in the first tranche of questionnaires, the norm is to follow up with reminders and resending of the questionnaires. Secondly, there is a strong possibly that the data gathered would merely duplicate data already gathered by the ISME. Lastly, using a questionnaire to explore issues which are by their very nature sensitive to the internal running of the business there would be ethical issues which would need to be addressed beyond the scope of this project.

Quantitative research paradigm is more appropriate to our research questions. Naik explains the qualitative paradigm as the objective of qualitative research is to gather an in-depth understanding of human behaviour in order to find the reasons which make the person behave in that particular way. This form of research relies more on quality than quantity. (Naik 2010)

3.5 Research design

3.5.1 Phase 1

This phase involves reviewing literature from many sources: academic journals and books, publications, newspapers and reports. This first phase is exploratory in nature. Based on this the literature enough background will be established to proceed to the phase two interviews.

3.5.2 Phase 2

This phase will be qualitative research carried out by semi-structured interview with five small business owners/managers. Open-ended questions will be asked. These interviews will give a greater understanding of the need for credit facilities for small businesses. This sample of business owners/managers will be selected in a non-judgemental manner. As the interviews are conducted with only five people, this will not be representative of the whole population. Therefore it will be more of an exploratory study.

3.5.3 Phase 3

Phase three will be the collection and analysis of the information gathered during the interview process.

3.6 Data collection methods

For the purpose of this researcher will be using interviews and primary data Primary data is that which is originated by the researcher for the research problem under study (Saunders et al, 2003). Primary data can be qualitative or quantitative in nature and can be generated through the use of observation, interview or questionnaires depending on the objectives of the research.

3.7 Interviews

An interview can be described as a market research tool used to gather valid and reliable data during a purposeful discussion between two or more people. (Kahn and Cannell, 1957)

According to Walliman 2001, interviews are particularly suitable for gathering qualitative data but may also be used in circumstances where quantitative data is required. There are three main types of interviews which can take place. Structured which consist of a series of predetermined questions which are useful for collecting descriptive and quantitative data as a means of identifying general patterns, similar to questionnaires (Saunders et al 2003) Unstructured interviews which are more informal in nature and seek to explore a general area of interest or research, where there is rarely a fixed set of questions. This technique is useful for exploratory research but requires researcher skill and is open to interviewer bias and comparability as each interviewee can be asked different questions.

Careful planning and preparation is required to ensure constraints such as limited sample sizes, times and financial issues do not affect the validity of the research (Kumar, 1999)

Semi structured interviews which include a combination of elements from both structured and unstructured interviews. Techniques tend to vary from one interview to another and usually consist of a combination of standardised and non-standardised questions. The way the questions are asked is not important and more questions can be added as the interview moves on. This method is useful for explanatory studies because it aides understanding of the relationship between variables (Saunders et al 2003)

3.8 Constructing the research instruments for data collection

The first instrument used to collect primary data was a series of semi structured interviews. Five interviews in total were carried out among local business in order to establish how the banking crisis has affected them.

3.9 Interview design

The use of semi structured, face to face interviews helped to increase response rates and corresponded with the beliefs of North 1983 who argued than managers prefer to be interviewed. On commencement of the interviews the first few minutes are extremely important to make a good impression by making the interviewee feel at ease and gain their confidence. The interviewee was assured that their responses were for analysis purposes only and that they would remain completely anonymous. To overcome the issue of bias, the interview was prepared and approached carefully, ensuring that questions were asked in an unbiased and competent manner making sure that the responses given were listened to and interpreted carefully and properly.

3.10 Interview questions

The interview questions are derived from the literature, the research questions and the objective of the research. A combination of standardised and non-standardised questions was used in the interviews. The format and sequence of questions asked in the interviews were as follows:

3.10.1 Introduction:

The interviewee was welcomed and explained the title and rationale of the research topic. It was explained that this interview would not require any financial information and that the questions were aimed at gaining an understanding of their businesses relationship with their bank in both pre and post recession and any changes which have occurred.

3.10.2 Closed questions:

To begin a few closed questions were asked in order to make the interviewee relax and also to confirm some facts and opinions. These questions confirmed the nature of business, number of employees, interviewee's position in the company.

3.10.3 Open questions:

The researcher then proceeded to ask a series of open ended questions, allowing the interviewee to describe and define their opinions. The interviewee was asked about their business history, a story of their business experiences with the banks. These questions were asked in order to gain insight into how they managed their relationship with the banks to date and if they have encountered any problems in raising their seed capital.

3.10.4 Probing questions:

The most difficult and sensitive questions were now asked. In this section, questions were asked about their current banking relationship. Are they currently availing of credit or overdraft facilities, or are they finding it harder to get credit since the onset of the recession. How has their business adjusted and changed to the issues surrounding the poor availability of credit? Do they have any future plans for expansion and if so what are their proposed means for funding? The interviewee was asked if they felt that the banks

are doing enough to support small businesses or if they felt perhaps that there was unfair abuse of the banks, in which case who do they feel was actually to blame?

3.10.5 Conclusion:

The interview concluded by giving the interviewee the chance to add any other information which they felt was relevant. Here the interviewee gave their own opinion of how they feel banking has changed since the onset of the banking crisis and what they would like to see change in order to rectify the current crisis effecting SME's. The interviewee was then thanked for their participation and the interview concluded.

3.11 Recording the information

Recording of the interview by tape was considered but it was felt that this might inhibit the responses by the interviewee and make them feel uneasy that the information was permanently recorded. It was instead decided to make short notes by hand as the interviews took place and then write up a full record immediately after each interview, the disadvantage of this method was the possible introduction of researcher bias.

3.12 Credibility of research

The credibility of the research findings are closely linked to the validity and reliability of the research (Kumar, 1999). Evidence should be made clearly visible to the readers that the findings are both reliable and valid.

3.13 Validity of research

Smith 1991 defines validity as" the degree to which the researcher has measured what he has set out to measure

3.14 Reliability of research

According to Moser and Kalton 1989, "a scale or test is reliable to the extent that repeat measurements made by it under constant conditions will give the same result"

3.15 Generalisation

Saunders 2003 refers to generalisation as the extent to which the research findings are representative of a larger population, also known as a type of validity

3.16 Evaluation of the credibility of the research

Readers can evaluate the credibility of this research as they explore the linkages between the research question, the research objectives and the questions used in the interviews and finally the findings for evidence of a research methodology appropriate to the research question.

3.17 Ethical issues

Kumar 1999 describes ethics as a code of behaviour appropriate to academics and the conduct of the research. This research is conducted in an ethical manner.

3.18 Limitations of the research

As with any study, there are factors that limit general application of the results (Nickerson, 1993). This research had several limitations, many of which stem from the constraints of the research. The following limitations were observed:

3.18.1 Time: The most conclusive limitation in this thesis is that it will be many years before an outcome can be established. The banking sector is very fragile and very unpredictable at the moment.

3.18.2 Financial: This study was privately funded meaning the researcher had to incur any extra costs associated with the collection of primary and secondary research.

3.18.3 Interview constraints: Although 5 interviews may not be representative of the entire population. This will be more of an exploratory study in the SME sector and is intended to illustrate the importance of gaining an in-depth understanding of a problem which is dominating the public discussion at the economic level but being largely overlooked at the SME level.

Chapter 4

Findings

4.1 Introduction

This chapter focuses on analysing and interpreting the data collected during the primary research process. The main focus of the primary research was five semi-structured interviews with local business people in which questions would be asked about pre-recession, current and future relations with their banks. This chapter presents a review of the information collected during these interviews. All five interviewees were asked the same questions in order to gain a balanced opinion. The responses were varied and eye opening.

4.2 Past business experiences

Upon conducting these interviews it was quickly established that all five business had very productive relationships with the banks in previous years. When asked about raising their seed capital, all five interviewees stated that this had not been a problem. One interviewee responded "We had no problems raising capital. We have been in business 20 years so all initial loans have been repaid. It was easy to get money 20 years ago" Whilst another stated "When raising our seed capital the banks were more than generous, it seemed at the time they would give you whatever you wanted with very few questions asked"

When a new business has limited business capital then it can be very difficult to launch that business successfully and many businesses fail because of a lack of funds, whether that is due to low initial business capital or on-going cash-flow. Whilst there are a lot of ways to raise business capital some of these ways such as grants or loans can be difficult or unlikely to succeed due to the restrictions imposed by the organisations providing the business capital. But banks have become stricter on their lending criteria and are less likely to loan money to an entrepreneur who has not got a perfect or long track record.

Moving on each interviewee was asked about their relationships with the bank pre-recession, most responded positively. While one interviewee described their relationship as "functional with very little dealings on a personal level", another described theirs as "great as long as there is money in the account". It seems that pre-recession, these business people had very little first hand relations with the

bank and yet they seem to have been just given credit, loans and overdrafts. It is perhaps for this reason they find themselves in this situation.

The final question in this section asked the interviewee's whether or not they avail of any credit facilities. Four out of the five interviewees avail of credit with only one having no borrowings at all. However, most have had their credit reduced by the bank in more recent years with one interviewee stating "For the last ten years I had a six thousand euro over draft but now I am cut back to five hundred euro" It appears that the banks days of handing out credit with little thought on risk has now back fired on the small business owner. Once they had all the credit they needed and adjusted their businesses accordingly. Over the years with expansion and growth they became accustomed to living within a certain credit bracket. Now the banks have removed this credit, small businesses are struggling to cope or adjust their business downward without inadvertently going under in the process. One thing all interviewees agreed on was that bank charges and fees were excessive and needed to be reduced.

4.3 Current business environment

Moving on from this, more probing questions were asked in an effort to explore the current state of SME's relationship with their bank and how their businesses have adjusted to any changes. Firstly, all five interviewees were asked if they had found it more difficult to obtain credit since the on-set of the recession. One interviewee found that their business was
"Much more careful about cash flow, to the extent that 'cash is king', with very close monitoring of expenditure and some investment to reduce future costs."
It would seem that no matter whether they have borrowings or not, each of the interviewees were keeping a close eye on their money. While some felt that credit was now a "thing of the past", others were not bothered about defaulting on loans as "there is no credit available anyway and the whole country has bad credit at this stage."
Some of these businesses are suffering badly as a result of the poor credit availability.

One interviewee explained how the reduction in their overdraft from six thousand euro to five hundred euro had severely impacted their business. They spoke of how things were now quite hard to manage as almost every supplier demands cash on delivery or payment up front and although "sometimes this is ok, a lot of times its not easy to keep a balance of paying bills and keeping stock, due to no overdraft to help out."

It is apparent that those affected by the unavailability of credit fear for their business' survival. One interviewee tells how they struggle on a daily basis and the only way of overcoming this is by not offering any credit to customers in an attempt to keep the money flowing. They describe their business as "still here….just about."

Another told of how they had borrowed against their home to get a franchise up and running and did a full refurbishment on their business only to have their credit cut shortly after. For this company, the lack of credit has had severe consequences. As they were unable to maintain the stock levels required, they lost their franchise and now stock only generic brands yet they still have to compete with a large franchise in the same small town. Business is poor and they are taking one day at a time.

This paints a dark picture of how bad things have got for some small business owners who are living on a day to day basis. Of those interviewed all but one felt that if credit was more readily available they could increase their stock and hence increase sales as at the moment all their income goes on paying bills. One of those interviewed tells how they had to de-register for Vat due to the huge decrease in sales while another tells how they miss out on a lot of jobs as they cannot afford the outlay in costs to purchase stock to complete the job. As a result of this they have to either turn work down or pass the job on to someone else.

The one business owner who went against the grain and stated that the banking sector had changed for the better felt that it was now up to SME's to better "prove a business plan and better research their ideas before seeking finance" They believed that this would lead to a more professional outcome. They also felt that there were still opportunities for new business and expansion, and that banks are continuing to fund SME's but they are requiring "much better business plans which are based on more sound economics".

4.4 Future expectations and confidence levels

In the final section of the interview process, each interviewee was asked about their future expectations as a company and how they felt the banking system needed to change in order to rectify the lending problem.

Of the five interviews, only one had any future plans to expand their business. They explain how they have future plans to build and extend their premises. They also explain how cash reserves will be used to fund this project and they will be "unlikely to borrow any money from the bank".

This is a stark contrast to the others who simply can not afford to expand with one explaining how they are more likely to downsize rather than expand. Each had ideas to expand but lacked any finance to do anything. For most it is a game of survival over the coming months or years in an attempt to ride out the recession and re-build their businesses. One interviewee tells how they are more likely to approach the credit union for any future funding as they have lost all trust in the banking system.

When asked if they felt the banks were doing enough to support small businesses, again the responses were varied. It was stated by one interviewee that they felt the banks gave out money far too easily and that people were "stupid to think the property bubble was going to keep going the way it was". They felt that it wasn't the banks at fault necessarily, but a severe "lack of regulation controls which is ultimately the fault of the government and for consistent policy that encouraged extra building and construction" This interviewee also felt that it was he individuals own fault for getting caught up with extensive borrowing. Although they felt that the banks would still lend money to businesses, but only where there is a good business plan and where there is equity also coming from the business. "Banks, quite rightly, are no longer willing to take all the risk".

The other interviewees all felt that the banks should accept responsibility for their actions. One particularly disgruntled business owner thought that the "banks and its corrupt managers were all 100% to blame". They claimed that any support from the banks was minimal and that the lack of finance was strangling their business. One felt that "pensions going to top bankers retired or not, should be cut by half". They felt that every normal day to day business person has had to make drastic changes in their lives when "the men at top who caused this still have a cushion under them". They felt that the top bankers are still being looked after while the little man foots the bill. "Trust in the smaller businesses and they will prosper".

4.5 Conclusion

Throughout the interview process many interesting and shocking pictures were painted about how these small businesses are struggling to survive on a daily basis. 80% of those interviewed believed the banks were firmly to blame for the lack of credit availability while 20% believed it was up to the SME's themselves to solve the problem.

Some of these businesses have been around for many years and it is interesting to see how the banking crisis has impacted on different people in different ways. Not very many businesses are expanding at the moment so it is particularly interesting that one interviewee is not only expanding but has the capital reserve to do so without having to borrow. This company has never traded beyond its means and always kept their debt to a minimum. Perhaps if more SME's had operated in the same manner, they would be in better positions. Perhaps the blame does not rest entirely on the bankers door step.

The next chapter will examine the bigger picture and what the implications are for SME's based on the findings in this chapter.

Chapter 5

Discussion

5.1 Introduction

This chapter examines the future implications for the SME's based on the findings in the previous chapter. The data gathered during the interview process will give a broader insight into understanding the bigger picture. The attitudes and perceptions of SME's are also examined and taken in to account when analysing these findings.

5.2 Discussion of findings

It's clear from these interviews that there is a need to improve the overall business environment for Ireland's small business sector. To do this additional enterprise support resources at a local level are needed in order to encourage and foster our indigenous sector, creating more sustainable jobs in every region.

SMEs' access to credit will play an important role in Ireland's economic recovery. The degree to which firms can access external financing has been shown to have an influence on the investment activity of the company. These activities will be of key importance to the recovery process which is a key national policy prerogative.

The decline in SME lending has been proportionally greater than the underlying decline in total business lending over the period, suggesting that SMEs are being denied funding, albeit without any micro evidence of how justifiable the credit withholding has been. When attempting to map out the pattern of credit demand, it is important to acknowledge that firms not applying for credit are not necessarily all in good financial health. Firms may decide not to make applications because the proposed rates are too punitive, or they feel the probability of rejection is too high (Mazars 2010)

> "There is no point in even applying for credit; we already know we won't get it"

Based on the findings from the previous chapter the implications of the banking crisis on small business are substantial. 80% of those interviewed in this study have had their business adversely affected by the lack of credit and reduction in credit facilities. Not having credit means that business owners are unable to purchase the stock necessary to maintain a good customer flow and for this reason, shoppers go elsewhere to get what they are looking for.

"We have had to turn down work due to having no funds to purchase stock to carry out the work."

For small trades' people the lack of credit means that they do not have the cashflow to provide for the materials needed to complete a job and have to pass the work on to someone else.

"Business is very difficult to manage as suppliers are demanding cash on delivery or payment upfront and although this is sometimes manageable, it is often difficult to keep a balance of paying bills and keeping stock due to the reduction in our overdraft facility."

A common complaint among 100% of those interviewed was the fees and charges imposed by the banks. For those who have had their credit facilities reduced, each time they miss a direct debit or have a bounced cheque they get charged up to €15 per transaction, further digging into the black hole of debt they are already in. It is a common feeling that banks need to take a look at how these fees are imposed and perhaps reduce these costs. One interviewee described excessive fees as an 'ongoing problem' whilst another described fees as "just another burden from the bank"

On the question of whether banks were to blame, it was interesting to discover that not everyone blamed the banks for the current situation. One interviewee thought that although the banks appeared frivolous with money and who they lent to, they felt that SME's must also accept some blame as they were the ones who took the money and got caught up in excessive borrowing. They felt that small business owners' fate firmly rested in their own hands. The theory applied here was in future "SME's must better prove their business plans and better research their ideas before seeking finance". This was seen as a way of making things more professional. They also explained how they thought:

"Banks will still lend money to businesses, but only where there is a good business plan & were there is equity also coming from the business. Banks, quite rightly, are no longer willing to take all the risk"

This opinion was not too common throughout the interviewees. One states that

"The banks and their corrupt managers are 100% to blame"

While another feels that "support is minimal"

Another important finding was that many business owners who did have credit were not afraid to default on loan terms of repayment. This was mainly due to the theory that it didn't matter if they had a poor credit rating as a result "because there was no credit available anyway". However, this may have a detrimental effect in the future as this kind of attitude toward the banks now may have a profound knock-on effect for years to come. When the economy does begin to repair itself and following the introduction of the new pillar banking system banks will begin lending again. Although terms will be tighter and risk better assessed, having a poor credit rating will do no favours. Sme's must try and keep up with their repayments now in order to survive later.In previous years credit was easy got and there was too much capital for too little demand. More and more loans were given out to those who were going to fail. But now we have the opposite problem, and the clamp-down has made loans too scarce.

"Loans and credit are a thing of the past; people don't have any faith in the banks anymore and are more likely to borrow from their local credit union"

The results of the interviews did show that there not only was an unavailability of credit but that there was a huge reduction in credit which has been obtained many years ago. While one business owner had their overdraft reduced from six thousand euro to five hundred euro another had theirs cut from twenty thousand euro to ten thousand euro and were made take out an extended loan to cover it. However, the previous small loan for this business was secured on a private residence. By making these business owners swap from an overdraft to a secured loan, the bank were themselves operating in a manner which seen themselves in a better financial position. By making these changes the banks were restricting the cashflow of these businesses.

"We felt cornered by the banks and were pressured into securing the loan on our property"

Dropping from six thousand to five hundred euro meant that one company had to downsize to survive while the company dropping from twenty thousand to ten thousand euro now not only had ten thousand less to use in their day to day running but they also have the expense of a loan and interest payments each month.

Surprisingly when asked about pre-recession relationships with the banks, each interviewee had stated that they had a positive banking relationship throughout their business life. It had been stated that some dealt "very little with the banks on a personal level" while others had more regular dealings. One common theme throughout this area was that each interviewee had no worries about credit availability and never felt that their business would have the credit supply cut off. This may be he reason why so many of those interviewed have very ill feelings toward the banking sector.

> "We all knew the boom wouldn't last forever but I don't think any of us
> realised the enormous effect it would have on each and every one of us"

5.3 Conclusion

The broader picture here shows that unless the bank returns to flow of credit to these small businesses, economic recovery will be at a standstill. It is understood that banks will never again be as relaxed about their lending terms and that things in the future will certainly be monitored and regulated better. Better credit reviews will be carried out and better risk assessment models will be put in place before any credit will be agreed. SME's will be required to have a solid business plan in place and be able to show that there is equity coming in and that their business plan will be able to sustain itself in the market. Only when these conditions are met will the flow of credit restart. For the persons interviewed during this research it is a waiting game for the pipes of credit to reopen but as to whether or not they can survive until then, or whether they become another statistical victim of the recession, remains to be seen.

Chapter 6

Conclusion and Recommendations

6.1 Introduction

This study has examined the impact which the banking crisis has had on the availability of credit to SME's. A number of objectives were explored; firstly, the three pillars of credit were examined; Quantitative easing from the government, lending plans from the banks and ratio analysis from businesses themselves. Next the faults were picked out of each pillar and established why they had failed. Finally recent developments were examined on how the government proposes to rectify the situation.

Interviews were also carried out with five local business people in order to determine how their own businesses have been affected. These objectives have been realised through an extensive review of existing literature and through primary research. This chapter presents the conclusions and recommendations of the author, based on the research conducted, and also on the possible areas for future research.

6.2 Main findings

Analysis of the research highlighted the following findings of which were deemed to be of significance:

- Of the interviews carried out, 80% of interviewees were extremely unhappy with their banking relationships. They felt that the banks were not doing enough to support small businesses and were withholding much needed funds. As the small and medium enterprise sector accounts for almost 90% of all businesses in Ireland, it is of vital importance that the flow of credit is restored as soon as possible. These businesses are struggling to survive let alone have the ability to grow. Only 20% felt that it was up to SME's to prove themselves to the bank and to develop a better, stronger business plan in order to get the banks to take notice.

- It also became apparent that there was not only a problem with obtaining credit but also with maintaining credit that they have had for many years. 60% of those interviewed had had their overdraft facilities dramatically reduced and were forced to take out loans to cover such reductions. This not only hampered the flow of cash within the company to purchase stock but also increased outgoings by now having loan repayments to meet.

- Only 20% of those interviewed had any future plans for expansion while 60% had big ideas for their business but no funding to do anything about them. 20% had considered downsizing their business as at the moment they were surviving on a day to day basis.

- Finally, when asked about how these businesses had changed and adjusted in line with banking changes, 100% of interviewees had stated that they were much more careful with cash now and monitored their outgoings very carefully. Some stated that they had to start asking for cash up front for jobs and could no longer offer credit to customers. One business owner had de-registered for Vat as sales had reduced so much over the last year.

6.3 Conclusion

The impact of the banking crisis in the availability of credit to small and medium enterprises is a critical one. It has become clear throughout the extensive literature review and the primary research interviews that the lack of available credit is having a detrimental effect not only on these small businesses but the entire Irish economy as a whole.

The availability of finance is an important driver of success for early stage companies. The type and amount of finance that can be raised is determined by the creditworthiness of the business, the purpose for which the money is required, the risks associated with the business and the collateral available, among other factors. (AIB, 2010)

Although some of the businesses interviewed had been in business for many years and some even have a cash reserve, others are relatively new companies who are dependant on finance to stay on their feet.

According to AIB's business 2000 plan, SMEs are created by entrepreneurs to satisfy consumer demand and exploit market opportunities. Unfortunately, business failure remains a business reality. Not all new enterprises will make it beyond their fifth year in operation. To avoid business failure, business people need to have a sound business idea, follow a comprehensive plan and have access to adequate funding.

6.4 Recommendations

6.4.1 Alternative sources of finance

Equity can come from the business owner, friends, family, business contacts or venture capitalists willing to invest in the business. Enterprise Ireland and County and City Enterprise Boards provide grants and financial support for the start-up and expansion of small businesses. Once a grant/equity has been organised, an entrepreneur will have more success securing bank finance. (AIB,2010)

Business owners must research their market thoroughly and keep up to date with changes in the business environment. They also have to delegate tasks effectively so they can concentrate on managing the business and ensure prudent cash management. Business owners/managers must also try to protect the business from insurable risks but it is not possible to insure any business against all possible risks.

The cheapest source of finance for a business can be found within the business itself. If business owners can collect money due from debtors quicker, negotiate longer credit or increased credit limits with suppliers or reduce average stocking levels in proportion to sales, they will have to borrow less money to fund working capital. Overhead and staffing costs may have to be more tightly controlled too.

There are many risks involved in starting a business. While risk is an essential element in business, it can be assessed and managed through proper analysis and planning and by taking advantage of the many supports available. Banks must understand the requirements of businesses in Ireland today. They must educated staff and introduce SME specific products and services to meet the needs of this segment of its market. By customising its products and services and providing support to its business customers, banks can offer improved services, helping to retain existing customers and attract new customers

6.5 Further areas of research

This study examined the current state of the banking system in Ireland and the impact it is having on SME's. As this is an ongoing problem, it could be many years before any sufficient outcome is produced. Some of the governments solutions do not come into effect until 2013 which mean SME's must continue to struggle to survive for at least another two years. It would be interesting to carry out further research on this topic in the next twelve to eighteen months to gauge how things have changed for these companies and interesting to see how many have continued to survive and how many have fallen victim to the recession.

A limitation in the amount of interviewees occurred during this research. This study was limited to north Donegal, so further research could be conducted using more business owners in various parts of Ireland. This would properly gauge the state of the economy on a grander scale.

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