Department for Business Innovation & Skills

SMALL BUSINESS SURVEY 2012

Credit risk analysis special report

MAY 2013

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1. Summary and conclusions

Introduction

This report analyses the findings from the 2012 Small Business Survey (SBS) by Dun & Bradstreet credit risk scores. These are assigned to businesses according to a number of criteria including the nature of the business, negative actions such as court actions or failure to pay debts, data on individual company Directors, and predictive scores on the likelihood of financial distress in the coming 12 months. The scores are used by some to assess creditworthiness, and on decisions whether to grant finance.

The Dun & Bradstreet system is just one of many in use in the UK. However, by profiling those with different credit scores, and analyzing their performance generally, it might be possible to see why certain SMEs attract poorer credit scores, and the obstacles that are faced as a result of them.

This report is based on SME employers only.

Profiles by credit risk score groups

The four main Dun & Bradstreet credit risk score groups analysed are those with minimal risk, those with low risk, those with average risk and those with above average risk. In 2012 19 per cent of SME employers had minimal risk scores, 31 per cent low risk, 37 per cent average risk and 11 per cent above average risk (for a further two per cent a score could not be determined). Compared to the 2010 Small Business Survey there were fewer SMEs in the minimal risk category, and more in the average risk category.

There was a strong correlation between credit risk scores and employment size. Micro businesses (1-9 employees) were more likely than average to be found in the average risk category, and small (10-49 employees) and medium-sized (50-249 employees) were more likely to be found in the minimal risk group. However, there were differences by employment size in the above average risk group.

An even stronger correlation occurred between age of business and credit risk scores. Younger businesses were much more likely to attract poor credit scores, with 47 per cent of those aged 0-3 years having average risk, and 19 per cent above average risk scores. By contrast, only 41 per cent of those aged over 10 years were in either of these categories.

Certain sectors were more likely to attract poor credit risk scores. This was particularly the case for manufacturing, where 21 per cent were in the above average risk category, and construction, where 22 per cent were in the lowest score category. The transport, retail and distribution sector also had below average scores. Those in the primary (agriculture etc.), business services and other services had better credit scores.

Partnerships had better credit risk scores than private limited companies or sole proprietorships.

There were no conclusive differences in the credit scores according to whether a business was family owned, the gender of leadership or the ethnicity of leadership. Social enterprises were more likely to have good credit scores than other businesses.

Business performance

SME employers in the above average risk category were both more likely than average to have taken on more employees in the last 12 months, and more likely than average to have fewer employees than a year previously. They were less likely than average to have stable turnover, and less likely to have made a profit in the last year.

In terms of predictions, those with above average risk were more likely than average to think they would increase the numbers employed in the next 12 months, and also to increase turnover.

Those with above average risk were, proportionately, more likely than average (18 per cent compared to 13 per cent of all SMME employers) to have grown their business in the last year[1].

Business capability

Those with above average credit risk scores were more likely than average to have innovated in terms of products and services and improved processes.

Those with average and above average credit risk scores were less likely than average to consider themselves strong at obtaining finance.

There was no correlation between credit risk scores and whether an SME employer exported.

Access to finance

Those with above average credit risk scores were significantly more likely than average to have sought finance in the previous 12 months. They were more likely than average to have sought working capital (72 per cent), and most applied for bank loans (56 per cent) and bank overdrafts (48 per cent).

Those in the minimal risk category were less likely than the other groups to experience difficulties when seeking finance, and were more likely to obtain all they needed. This was the case for bank finance as well as alternative types of finance. Perhaps surprisingly, those with average and above average credit risk scores were not more likely than average to experience difficulties or not obtain the finance they needed.

[1] Defined as having increased turnover or numbers employed in the last 12 months by five per cent or more, subject to minimum thresholds of a minimum three employees or £50,000 turnover.

Those with above average risk scores were more likely than average to admit they did not understand the way in which banks assess business credit worthiness although, along with the other credit score groups, they understood better in 2012 than was the case in the 2010 survey.

Those with average and above average risk scores were less likely to enjoy good relationships with their banks than were those with minimal risk scores.

In general, those with average and above average risk scores were less aware of alternative types of finance such as venture capitalists.

There was no correlation between credit risk scores and whether SME employers experienced late payment.

Obstacles to success

Those with above average credit risk scores were more likely to face obstacles to the success of their business such as cash flow problems, taxation payments and obtaining finance.

Business support

Those with minimal risk were more likely than average to have received information or advice than other groups (56 per cent compared to 45 per cent overall), and those with average risk were the least likely to have received this (40 per cent).

Those with above average risk scores were more likely than average in 2012 to be seeking information or advice for the purposes of business growth, how and where to obtain finance, and exporting. They were more likely than average to seek advice and information from banks.

Conclusions

As mentioned above, Dun & Bradstreet's credit scoring system is just one of many in place, and banks have their own systems developed. Yet while those with minimal risk scores seem to experience fewer problems in obtaining finance, it is surprising to find that those with the least favourable credit scores were no less likely than average to obtain finance, and this was not because they sought alternative non-bank finance.

Dun & Bradstreet report that their scores are mainly based on past actions such as the inability to pay debts or Directors' individual credit ratings. Yet it is undeniable that the younger businesses with less trading history and thus less opportunity to default on debts receive the poorer credit scores. Despite being as likely to obtain finance as most, those with the poorest credit scores do face the most obstacles, particularly in regard to cash flow and obtaining finance. They are also the group with the most proven growth, the highest levels of innovation, and the most ambition for the future. Thus it might be questioned whether credit scores do provide evidence of the inability to repay debts, and are themselves an obstacle to the growth of the businesses with the most ambition.

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May 2013

2. Introduction

The Small Business Survey 2012

The Small Business Survey (SBS) is a large- scale telephone survey among business owners and managers, commissioned by the Department for Business, Innovation and Skills (BIS). This survey is the latest in a series of Annual Small Business Surveys and subsequently biennial Small Business Surveys dating back to 2003. The survey was conducted between June and September 2012 by BMG Research Ltd.

The survey has a number of remits and objectives. It monitors key performance indicators amongst small and medium-sized businesses (SMEs), gauges their intentions, needs, concerns and obstacles to fulfilling their potential, and acts as a sounding board for possible Government interventions.

BIS commissioned 4,000 CATI[2] interviews for the SBS 2012 main stage survey distributed in proportion to the business populations of UK nations. The Welsh Government, the Scottish Government and the Northern Ireland Assembly commissioned additional interviews in their own nations to generate a total sample size of 5,723[3].

Within each of the four UK nations the sample was stratified. Targets were set according to the size of enterprises and, within those targets, for sector[4]. Approximately one sixth of interviews in each nation were conducted with enterprises with no employees; one third with micro businesses (one to nine employees); one third with small businesses (10-49 employees); and one sixth with medium-sized businesses (50-249 employees). The sector targets, set within size bands, were intentionally disproportional with some over-sampling of sectors of particular interest.

The sample was drawn, according to these nation, size and sector targets, from the Dun & Bradstreet database. No further sampling strata (e.g. on age of business or England region) were applied.

Survey findings were weighted to the 2012 Business Population Estimates (BPE), published by BIS, which are themselves based upon the Inter Departmental Business Register (IDBR) with supplementary estimates of the populations of self-employed and very small businesses drawn from the Labour Force Survey (LFS).

[2] Computer Assisted Telephone Interviews.

[3] 3444 interviews in England, 1002 in Scotland, 765 in Wales and 512 in Northern Ireland.

[4] According to Standard Industrial Classification (SIC) 2007

Credit risk analysis

Credit risk refers to the risk that a borrower will default on any type of debt by failing to make payments that it is obliged to do. To reduce the risk of a borrower being unable to pay back money as agreed, the lender may perform a credit check on the prospective borrower which may result in the borrower being required to take out appropriate insurance, may require additional securitisation, or result in negative approval for the finance sought. Generally, the higher the considered risk, the more the debtor will be asked to pay in terms of interest, fees, or a greater demand for securitisation.

A number of institutions provide credit risk scores for businesses, and each of the main UK banks has its own sophisticated system for assessing credit risk. None of these systems are identical, meaning that a business might score poorly in one model, but better with another.

Because SBS uses sample derived from Dun & Bradstreet, it is possible to analyse survey findings by their credit risk analysis for businesses. Dun & Bradstreet assess a number of actions when deriving credit scores, including the nature of business, negative actions such as court actions or the failure to pay debts, data on individual company Directors, and predictive scores on the likelihood of financial distress in the coming 12 months. These and other criteria are summarised into a credit risk score which ranges from one (minimal risk) to four (above average risk).

Credit risk analysis might be used to help explain why some SMEs find it hard to obtain finance, although it should be stressed that the Dun & Bradstreet system is just one of several in use today. By profiling those with different credit scores, and by analysing their performance generally, it might be possible to see why certain SMEs attract poorer credit scores, how they might improve them in future, and whether certain types of finance might be applicable to help them grow.

Notes

Please note that the findings presented in this report relate to SME employers only - enterprises with no employees have been excluded from the dataset on which this report is based. This procedure is consistent with reporting of the 2010 SBS and of the Annual Small Business Surveys (ASBSs) that preceded this. The overall sample size for SME *employers*, excluding those enterprises without employees, across the UK is 4,768. A separate report relating to enterprises with no employees is available.

Statistical confidence

Unless stated otherwise, all findings reported are statistically significant, whether reported as a comparison between SBS 2010 and SBS 2012, or where findings for sub-groups are compared with the overall total. In this latter instance it should be noted that the comparison is between the sub-group (e.g. all micro employers), and the total <u>minus</u> that sub-group (which in the cases where comparisons are made between micros and others means a comparison between micros and small/medium-sized businesses combined).

3. Profiles by credit risk scores

This section shows the profiles of the four Dun & Bradstreet credit risk groups according to key firmographics such as employment size, sector, legal status and age of business.

Overall size of segments

Within the 2012 SBS employer dataset, 19 per cent of SME employers were classified as having 'minimal' risk, 31 per cent 'low' risk, 37 per cent 'average' risk and 11 per cent 'above average risk. For a further two per cent the credit score could not be determined. This may be due to company accounts not having been filed in the previous financial year (hence those aged less than one year were more likely than average to fall into this category).

In SBS 2010 there were a higher proportion of SMEs within the minimum risk category (24 per cent) and fewer in the average risk category (29 per cent), when compared with SBS 2012. The proportion of SMEs with an undetermined rating was higher (six per cent) than was the case in 2012.

This means that when comparing SBS 2012 and 2010, SME employers in 2012 attracted poorer credit risk scores than was the case in 2010. In 2010 the mean average score was 2.28, compared to 2.41 in 2012. However, it cannot be concluded that SME employers in 2012 were generally less creditworthy than in 2010, as Dun & Bradstreet may have changed their criteria between the two surveys.

Employment size

There is a very clear correlation between credit risk scores and employment size, with the medium-sized SMEs (50-249 employees) and small SMEs (10-49 employees) tending to have more favourable risk scores than the micros (1-9 employees).

Table 3.1: Credit risk score – trends by employment size

	All SME employers	Micro (1-9)	Small (10-49)	Medium (50-249)
SBS 2012 (n=)	4768	1901	1902	965
	%	%	%	%
Minimal risk (1)	19	17	**26**	**39**
Low risk (2)	31	32	27	**23**
Average risk (3)	37	**39**	**29**	**22**
Above average risk (4)	11	10	14	11
Undetermined	2	2	3	**6**
Mean score	2.41	2.43	2.33	2.05
SBS 2010 (n=)	3817	1528	1530	759
	%	%	%	%
Minimal risk (1)	24	22	**30**	**38**
Low risk (2)	31	31	30	32
Average risk (3)	29	31	**24**	**17**
Above average risk (4)	10	10	11	10
Undetermined	6	6	6	4
Mean score	2.28	2.31	2.17	1.97

Base = all SME employers.

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). A2. Single answer only allowed at this question.

Thus, 39 per cent of medium-sized businesses fell into the minimal risk category, compared to 26 per cent of small businesses and 17 per cent of micros. Conversely, 22 per cent of mediums were in the average risk category, compared to 29 per cent of small businesses and 39 per cent of the micros.

However, not one of these three size bands was more likely than average to fall into the above average risk category, indicating that the size of a business is not the only factor that affects a poor credit score. This was the case both in SBS 2012 and SBS 2010.

The mean credit risk score for micros in 2012 was 2.43, compared to 2.31 in 2010. Indeed, the mean score was lower for all three size bands in 2012 when compared to 2010.

Age of business

There is also a strong correlation between the age of business and their credit scores. This is to be expected as younger businesses are less likely to have a track record in terms of supplier payment, tend to have fewer assets, and are generally smaller than more established ones.

Table 3.2: Credit risk score – trends by age of business

	All SME employers	0-3 years old	4-10 years old	Over 10 years old
SBS 2012 (n=)	4768	305	959	3484
	%	%	%	%
Minimal risk (1)	19	**6**	**10**	**24**
Low risk (2)	31	**24**	30	33
Average risk (3)	37	**47**	**44**	**33**
Above average risk (4)	11	**19**	**15**	**8**
Undetermined	2	**4**	1	2
Mean score	2.41	2.82	2.65	2.24
SBS 2010 (n=)	3817	183	744	2872
	%	%	%	%
Minimal risk (1)	24	**6**	**13**	**30**
Low risk (2)	31	**19**	31	32
Average risk (3)	29	**41**	**36**	**25**
Above average risk (4)	10	**20**	**14**	**8**
Undetermined	6	**15**	5	5
Mean score	2.28	2.88	2.54	2.12

Base = all SME employers.

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). A6. Single answer only allowed at this question.

Thus, only six per cent of SME employers aged 0-3 years fall into the minimal risk category, with 47 per cent having an average risk, and 19 per cent having above average risk. This compares to 24 per cent of those aged over 10 years being in the minimal risk category, 33 per cent in the average risk category, and just eight per cent in the above average risk category.

The mean average credit risk score for SME employers aged 0-3 years in 2010 was 2.88, which was higher, and therefore less favourable, than was the case for the same group in 2012. By contrast the mean average score for older SME employers was higher in 2012.

Sector

In addition to size and age of business, the nature of the business, or sector, seems to affect the credit risk score.

Table 3.3: Credit risk analysis – trends by sector (SIC 2007)

	All SME emps.	ABDE Prim-ary	C Manu-facture	F Constr-uction	GHI TRAD	J Info-comm.	KLM Busi-ness serv.	N Admin.	PQRS Other serv.
SBS 2012 (n=)	4768	204	671	457	1220	255	724	302	935
	%	%	%	%	%	%	%	%	%
Minimal risk (1)	19	**57**	**15**	**8**	**13**	21	22	19	**27**
Low risk (2)	31	30	**26**	**23**	**26**	**40**	**43**	33	34
Average risk (3)	37	**8**	35	**44**	**45**	34	**29**	36	34
Above average risk (4)	11	**3**	**21**	**22**	13	**3**	**6**	9	**2**
Undetermined	2	2	3	2	2	2	2	3	2
Mean score	2.41	1.56	2.64	2.82	2.60	2.20	2.19	2.37	2.12
SBS 2010 (n=)	3817	63	497	322	1115	155	519	202	910
	%	%	%	%	%	%	%	%	%
Minimal risk (1)	24	**64**	**12**	**14**	**18**	27	**36**	24	**32**
Low risk (2)	31	30	33	**19**	28	**39**	**38**	**37**	30
Average risk (3)	29	**4**	**34**	**44**	**36**	**22**	**17**	25	**20**
Above average risk (4)	10	*	**16**	**19**	12	6	**4**	10	**4**
Undetermined	6	1	5	4	5	6	4	5	**14**
Mean score	2.28	1.41	2.58	2.71	2.45	2.09	1.88	2.22	1.96

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). A3/A4. Single answer only allowed at this question. * = a figure of less than 0.5% but higher than zero

The primary sector, which mainly consists of agricultural businesses but also including mining, utilities and waste management, has very favourable risk scores with 57 per cent being in the minimal risk category. This suggests an asset-rich sector.

Manufacturing businesses tend to be older and larger than average, yet this sector attracts poor credit risk scores. Twenty-one per cent of this sector were in the above average risk category. The construction and transport, retail and distribution sectors also tended to attract credit scores which were lower than average, while information/communications, business services and other services had better than average credit scores.

Comparing 2010 and 2012, mean average credit risk scores were higher, and therefore less favourable, in 2012 for all sectors. This was particularly likely to be the case in business services where the mean average score increased from 1.88 to 2.19.

Legal status

Fifty-two per cent of SME employers were private limited companies, limited by shares (LTDs). Twenty-seven per cent were sole proprietorships and 12 per cent were partnerships. In general, sole proprietorships and partnerships tend to have far fewer employees than private limited companies, but partnerships tend to be older businesses than sole proprietorships and private limited companies.

This last fact helps to explain why partnerships tend to attract better credit risk scores than the other two legal statuses, while sole proprietorships sit firmly in the average risk category (53 per cent), being less likely than average to have minimal risk categorisation.

Table 3.4: Credit risk score – trends by legal status

	All SME employers	Private Ltd. Company	Sole Proprietor	Partnership
SBS 2012 (n=)	4768	2934	705	496
	%	%	%	%
Minimal risk (1)	19	19	**5**	**39**
Low risk (2)	31	**34**	30	**26**
Average risk (3)	37	**33**	**53**	**23**
Above average risk (4)	11	**13**	10	8
Undetermined	2	2	2	4
Mean score	2.41	2.41	2.69	2.00
SBS 2010 (n=)	3817	2325	433	356
	%	%	%	%
Minimal risk (1)	24	24	**6**	**34**
Low risk (2)	31	32	32	32
Average risk (3)	29	28	**44**	20
Above average risk (4)	10	11	12	**6**
Undetermined	6	4	6	7
Mean score	2.28	2.28	2.66	1.99

Base = all SME employers.

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). A5. Single answer only allowed at this question.

When comparing the mean average credit risk score between 2010 and 2012 it is notable that those for sole proprietorships and partnerships are almost unchanged, but that the mean average for private companies limited by shares has increased, and is therefore less favourable.

Family businesses

Sixty-two per cent of SME employers in 2012 were family-owned businesses, defined as being majority-owned by members of the same family. Family-owned businesses tend to be smaller and older than the average SME employer.

Table 3.5: Credit risk scores – trends by whether a family business

	All SME employers	Family business	Not a family business
SBS 2012 (n=)	4768	2666	2095
	%	%	%
Minimal risk (1)	19	18	20
Low risk (2)	31	31	32
Average risk (3)	37	38	36
Above average risk (4)	11	11	9
Undetermined	2	2	2
Mean score	2.41	2.43	2.36
SBS 2010 (n=)	3817	2075	1738
	%	%	%
Minimal risk (1)	24	21	**28**
Low risk (2)	31	32	28
Average risk (3)	29	30	28
Above average risk (4)	10	11	8
Undetermined	6	5	**8**
Mean score	2.28	2.34	2.19

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). R1. Single answer only allowed at this question.

In 2012 there were no significant differences between the credit risk scores of family and non-family owned businesses. In 2010 non-family owned businesses were more likely than average to be in the minimal risk category, but this was not the case in 2012.

Women-led businesses

Nineteen per cent of SME employers were women-led in SBS 2012, defined as controlled by a single woman, or having a management team of which a majority were women. A further 23 per cent were led equally by men and women, eight per cent had women directors in a minority, and 49 per cent were entirely male led. Women-led businesses tended to be younger than average, smaller, and more prevalent in particular sectors such as retail and other services.

Table 3.6: Credit risk scores – trends by whether a women-led business

	All SME employers	Women-led business	Equally-led	Women in minority	Entirely male led
SBS 2012 (n=)	4768	770	1053	681	2172
	%	%	%	%	%
Minimal risk (1)	19	17	**25**	**38**	**14**
Low risk (2)	31	28	31	29	33
Average risk (3)	37	**45**	**32**	**24**	38
Above average risk (4)	11	**8**	10	8	12
Undetermined	2	2	2	1	3
Mean score	2.41	2.45	2.28	2.03	2.50
SBS 2010 (n=)	3817	599	811	582	1762
	%	%	%	%	%
Minimal risk (1)	24	26	26	**32**	**21**
Low risk (2)	31	28	31	30	31
Average risk (3)	29	27	27	**19**	**33**
Above average risk (4)	10	11	12	9	10
Undetermined	6	8	5	**9**	5
Mean score	2.28	2.24	2.26	2.07	2.34

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested).
R4/R5/R7/U5. Single answer only allowed at this question.

SME employers that were equally-led or where women were in a minority tended to attract better credit scores than those that were women-led or entirely male-led. For those that were equally-led this was probably because these businesses tended to be older than average, and those where women were in a minority tended to be larger.

There was nothing to suggest that leadership gender affects credit risk scores.

MEG-led businesses

Seven per cent of SME employers were minority ethnic group (MEG)-led, defined as having a person from an ethnic minority in sole control of the business, or having a management team with at least half of members from an ethnic minority. There was little difference in this proportion by size of business, with seven per cent of both micros and small businesses being MEG-led and six per cent of medium-sized ones, but MEG-led businesses were more likely than average to be found in the transport, retail and distribution and other services sectors. MEG-led businesses tend to be younger than the average for SME employers.

Table 3.7: Credit risk scores – trends by whether a MEG-led business

	All SME employers	MEG-led business	Not MEG-led
SBS 2012 (n=)	4768	240	4528
	%	%	%
Minimal risk (1)	19	14	19
Low risk (2)	31	**24**	32
Average risk (3)	37	**50**	36
Above average risk (4)	11	9	11
Undetermined	2	3	2
Mean score	2.41	2.55	2.40
SBS 2010 (n=)	3817	248	3528
	%	%	%
Minimal risk (1)	24	16	24
Low risk (2)	31	32	31
Average risk (3)	29	31	29
Above average risk (4)	10	**17**	10
Undetermined	6	5	6
Mean score	2.28	2.51	2.26

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested).
R4/R5/R10/R15. Single answer only allowed at this question.

MEG-led SME employers were more likely to be found in the average risk category than those that were not MEG-led in 2012, but there was no reason for their attracting slightly less favourable credit risk scores than non MEG-led businesses, other than their age and sectorial profiles. Compared to 2010 the mean average credit risk score for MEG-led businesses was very similar in 2012, which was not the case for non MEG-led businesses.

Social enterprises

Twenty-four per cent of SME employers viewed their businesses as comprising a social enterprise: a business that has mainly social or environmental aims.

However, BIS has a further definition of a social enterprise such that it requires the enterprise to consider itself a social enterprise as above, but also should not pay more than 50 per cent of profit or surplus to owners or shareholders, should not generate more than 25 per cent of income from grants and donations and, therefore, should not have less than 75 per cent of turnover from trading. In addition, they have to think themselves a very good fit with the statement ‘a business with primarily social or environmental objectives, whose surpluses were principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners. Under the BIS definition, five per cent of SME employers were social enterprises in 2012, the same proportion seen in 2010.

Under this definition, five per cent of SME employers were considered to be social enterprises, a similar proportion to that seen in SBS 2010 and ASBS 07/08. The profile of social enterprises by age and employment size was very similar to that of other SME employers, but they tended to be more common in the food/accommodation and other services sectors.

Table 3.8: Credit risk scores – trends by whether a social enterprise (BIS definition)

	All SME employers	Social enterprise	Not a social enterprise
SBS 2012 (n=)	4768	277	4491
	%	%	%
Minimal risk (1)	19	**28**	18
Low risk (2)	31	22	32
Average risk (3)	37	32	37
Above average risk (4)	11	14	11
Undetermined	2	3	2
Mean score	2.41	2.34	2.41
SBS 2010 (n=)	3817	301	3516
	%	%	%
Minimal risk (1)	24	22	24
Low risk (2)	31	**24**	31
Average risk (3)	29	33	29
Above average risk (4)	10	10	10
Undetermined	6	**11**	6
Mean score	2.28	2.35	2.28

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). D1/D2/D4/D5/D6. Single answer only allowed at this question.

In SBS 2012, social enterprises had a slightly better credit risk rating than other SME employers. Twenty-eight per cent fell into the minimal risk category, compared to 18 per cent of other SME employers.

Compared to 2010 the mean average credit risk ratings for social enterprises were unchanged in 2012, while other SME employers were scored less favourably between the two surveys.

4. Business Performance

This section explores how SME employers with different credit ratings performed in the previous twelve months in terms of employment size and turnover, and their expectations for performance in the next twelve months.

Numbers employed compared to twelve months ago

Nineteen per cent of SME employers employed more people than was the case twelve months earlier. Sixty-four per cent employed the same number and 17 per cent employed fewer.

Table 4.1: Numbers employed now compared to 12 months ago – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4736	1227	1367	1462	531
	%	%	%	%	%
More than 12m ago	19	17	18	19	**23**
Same as 12m ago	64	64	66	67	**54**
Fewer than 12m ago	17	18	17	**14**	**23**
SBS 2010 (n=)	3779	1141	1105	937	349
	%	%	%	%	%
More than 12m ago	17	16	16	19	**22**
Same as 12m ago	61	**65**	67	**57**	**46**
Fewer than 12m ago	21	19	**17**	24	**32**

Base = all SME employers trading for at least one year

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). B1/B2. Single answer only allowed at this question.

There does appear to be some correlation between credit risk scores and employment trends, in that those with the lowest credit scores (above average risk) and less likely to be static. In SBS 2012 fifty-four per cent had the same numbers employed as a year previously, compared to the overall average of 64 per cent. Those with above average risk appear polarised, being both more likely than average to employ more, and also more likely than average to employ fewer. The same pattern was also evidence in SBS 2010.

Numbers of people expected to be employed in twelve months' time

Twenty per cent of SME employers expected to employ more people in twelve months' time, 58 per cent expected to employ the same number and 21 per cent expected to employ fewer.

Table 4.2: Numbers expect to employ in 12 months time – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
More than 12m ago	20	18	21	19	**24**
Same as 12m ago	58	**63**	58	59	**52**
Fewer than 12m ago	21	19	20	21	23
SBS 2010 (n=)	3817	1144	1113	947	359
	%	%	%	%	%
More than 12m ago	23	**19**	22	24	**29**
Same as 12m ago	62	**67**	63	61	**51**
Fewer than 12m ago	14	13	14	13	17

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). B5/B6. Single answer only allowed at this question.

Those with above average risk were actually more likely than average to predict they will employ more in a year's time. Twenty-four per cent of those with above average risk credit scores said that they will employ more than was the case at the time of interview, compared to the overall average of 20 per cent.

The same pattern was also evident in SBS 2010. In this survey it was also found that those with minimal risk credit scores were less likely than average to say they would employ more in a year's time.

Turnover now compared to twelve months previously

Twenty-nine per cent of SME employers had greater turnover (value of sales) than a year previously. Thirty-six per cent had approximately the same turnover and 31 per cent had lower turnover.

Table 4.3: Turnover compared to 12 months previously – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4682	1223	1360	1436	520
	%	%	%	%	%
Turnover greater now	29	**26**	30	28	33
Same as 12m before	36	**40**	36	37	**30**
Turnover lower now	31	31	32	31	33
SBS 2010 (n=)	3752	1140	1101	927	341
	%	%	%	%	%
Turnover greater now	28	27	29	27	29
Same as 12m before	34	34	36	32	29
Turnover lower now	35	34	34	37	**41**

Base = all SME employers trading for at least two years

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). P2. Single answer only allowed at this question

In SBS 2012, those with minimal risk credit scores were less likely than average to have greater turnover at the time of interview compared to a year previously. Those with above average risk were less likely than average to have static turnover.

In SBS 2010 there were no significant differences according to credit score, except that those with above average risk were more likely than average to have had decreased turnover.

Expectations of turnover in twelve months' time

Thirty-seven per cent of SME employers expected turnover to increase in the next twelve months, 43 per cent thought it would remain roughly the same and 14 per cent thought it would be less.

Table 4.4: Expectations of turnover in 12 months' time – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
More than now	37	**30**	35	39	**48**
Same as now	43	46	44	43	**34**
Less than now	14	**18**	14	13	12
SBS 2010 (n=)	3817	1144	1113	947	359
	%	%	%	%	%
More than now	41	**33**	44	43	**52**
Same as now	40	**46**	40	40	**33**
Less than now	14	17	12	15	12

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). P7. Single answer only allowed at this question.

In a pattern similar to that for employment predictions, those with minimal risk credit scores were less likely than average to predict increased turnover, and more likely than average to predict reduced turnover. Conversely, those with above average risk credit scores were more likely than average to predict an increase in turnover, and were less likely than average to predict reduced turnover. This pattern also occurred in SBS 2010.

The reason for the greater confidence among those with less favourable credit risk scores is likely to be related to the average ages of the businesses in the categories. Those with above average risk scores tend to be younger, and hence more likely to grow in the future. This is confirmed by the finding that 76 per cent of those with above average credit risk scores expected to grow over the next two to three years in SBS 2012, compared to 69 per cent of those with minimal risk scores, 66 per cent of those with low risk scores, and 66 per cent of those with average risk scores.

Profit

Seventy-two per cent of SME employers generated a profit in their last financial year, approximately the same proportion as in 2010.

Table 4.5: Whether generated a profit or surplus in the last financial year – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
Yes - profit	72	73	**78**	**68**	**65**
SBS 2010 (n=)	3817	1144	1113	947	359
	%	%	%	%	%
Yes - profit	71	**75**	**76**	68	**59**

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). D3. Single answer only allowed at this question.

Those with above average risk scores were less likely than average to have made a profit, both in 2012 and 2010 (65 per cent and 59 per cent respectively). Those with low risk credit scores were the most likely to have made a profit in both surveys (78 per cent and 76 per cent respectively).

Plans for closure or transfer of business

Nine per cent of SME employers anticipate the closure of their business in the next five years. Fourteen per cent anticipate the full transfer of ownership, while 70 per cent did not think either of these things would happen.

Table 4.6: Plans for closure or transfer of business in the next 5 years – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
Yes – anticipate closure	9	7	9	9	7
Yes – anticipate full transfer	14	13	16	14	12
Neither	70	71	68	71	72
Don't know	7	8	7	6	8
SBS 2010 (n=)	3817	1144	1113	947	359
	%	%	%	%	%
Yes – anticipate closure	6	5	5	**8**	7
Yes – anticipate full transfer	17	18	16	17	16
Neither	71	72	73	**66**	68
Don't know	7	5	6	**9**	9

Base = all SME employers. Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). R3. Single answer only allowed at this question.

In SBS 2012 there were no significant differences according to credit risk score. In 2010 those with average risk scores were more likely than other SME employers to anticipate closure of their businesses.

Growth segmentation

In 2012 a growth segmentation was devised, based upon employment or turnover growth. This was based upon the distribution of SME employers in terms of the percentage increase or decrease in numbers employed in the last 12 months (subject to a threshold of the actual increase/decrease in numbers), or the percentage increase or decrease in turnover in the last 12 months (subject to a threshold of the actual increase/decrease in turnover). A detailed segmentation of ten groups was devised, which was further categorised into three broad groups:

- **Growers**, who were SME employers that had increased the numbers employed by five per cent or more in the last year with a minimum of three new employees, or

SME employers that had increased turnover by five per cent or more in the last year, with a minimum increase of £50,000.

- **Stable**, who were SME employers that had the same numbers, or who employed up to two more or fewer employees than 12 months previously, and whose turnover increased or decreased by less than £50,000.

- **Shrinkers**, who were SME employers that had decreased the numbers employed by five per cent or more in the last year with a minimum of three employees lost, or SME employers that had decreased turnover by five per cent or more in the last year, with a minimum decrease of £50,000. In addition, this group could not have grown employment or turnover by five per cent or more.

A fourth group were those where employment or turnover information was incomplete (known as ‘incomplete’).

A sub-set of the growers segmentation were the **High Growers**, who were SME employers that had increased the numbers employed by 20 per cent or more in the last year with a minimum of ten new employees, or SME employers that had increased turnover by twenty per cent or more in the last year, with a minimum increase of £250,000.

Overall, 13 per cent of SME employers were categorised as growers, of which a sub-set of three per cent were high growers. Thirteen per cent were classified as shrinkers, and 57 per cent were stable.

Table 4.7: Growth segmentation – by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
Growers	13	14	13	**9**	**18**
- High Growers	3	3	3	2	**5**
Stable	57	**50**	**60**	**60**	**47**
Shrinkers	13	**16**	11	**10**	**20**
(Incomplete)	18	20	16	21	15

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). Single answer only allowed

As was the case with employment gain/loss in the previous 12 months, the above average risk group was somewhat polarised, being both more likely than average to be in the growers and high growers group, but also more likely than average to be in the shrinker group.

Those with average risk credit scores were less likely than average to be growers or shrinkers. Those with minimal risk scores were, interestingly, more likely than average to be shrinkers.

5. Business Capability

This section explores how SME employers with different credit scores perform on a range of different measures such as how strong or poor they feel they were across a range of business management tasks and in innovating, exporting, training, adapting to new technology and in reducing their environmental impact.

Business Capability; Accessing External Finance

Overall in SBS 2012, eighteen per cent of SME employers considered that they were strong at accessing external finance, while 42 per cent considered that they were poor at this.

There was some correlation with credit risk score, with those with minimal risk scores being the group most likely to consider themselves strong at accessing finance (23 per cent, compared to 17 per cent of those in the low and average risk categories, and 20 per cent of those in the above average risk category), and the group least likely to consider themselves poor for this (38 per cent, compared to 42 per cent of those in the low risk category, 43 per cent of those in the average risk category, and 46 per cent of those in the above average risk category.

Business Capability: Innovation

Forty-three per cent of SME employers had introduced new or significantly improved products or services in the last twelve months. Thirty-three per cent had introduced new or significantly improved processes in the last twelve months

Table 5.1: Whether introduced new or significantly improved products/services or processes in the last 12 months – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	2367	610	690	720	284
	%	%	%	%	%
Products/services	43	43	**37**	45	**51**
Processes	33	**37**	31	29	**40**
SBS 2010 (n=)	1904	568	554	494	157
	%	%	%	%	%
Products/services	47	43	43	50	**58**
Products/services	33	31	34	32	30

Base = all SME employers (half sample only)

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). J1/J3. Single answer only allowed at this question.

Business Capability: Exporting

Nineteen per cent of SME employers reported that they sell goods or services or licence products outside of the UK. This was a decrease of four percentage points on the 2010 survey.

Table 5.2: Whether sell goods or services or licence products outside of the UK – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
Yes - export	19	20	20	17	22
SBS 2010 (n=)	3817	1144	1113	947	359
	%	%	%	%	%
Yes - export	23	**26**	**26**	**19**	18

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). C1. Single answer only allowed at this question.

In theory an unfavourable credit risk score could be construed to be a barrier to export, yet there is no evidence that those with average or above average risk were any less likely to export that those with minimal or low risk scores. This was the case in SBS 2012. In 2010 those with minimal and low risk scores were more likely than average to export.

Overall, three per cent of those not currently exporting have plans to start doing so in the next 12 months. There was a correlation in this proportion by credit risk score in 2012: just two per cent of those with minimal and low risk scores planned to export, compared to four per cent of those with average risk, and five per cent of those with above average risk.

Among those not exporting and with no plans to do so, there were no significant differences by credit risk score in 2012 in the reasons for not exporting, other than those with above average risk scores were more likely to say that exporting was 'too costly' (seven per cent compared to four per cent of all SME employers with no plans to export).

6. Access to Finance

This section deals with the subject of business finance and access to external finance in particular, and whether the ability to access this is linked to credit scores.

Whether sought finance in the last twelve months

Twenty four per cent of SME employers had sought finance in the twelve months preceding interview. This was more likely to be the case for larger SMEs and less likely for micros.

Table 6.1: Whether sought finance in the last 12 months – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
YES - ANY	24	23	22	22	**37**
- Once	16	15	15	16	**23**
- More than once	8	9	7	**6**	**14**
NO	75	75	76	77	**62**
SBS 2010 (n=)	3817	1144	1113	947	359
	%	%	%	%	%
YES - ANY	26	**20**	25	27	**38**
- Once	17	**12**	18	18	**26**
- More than once	9	8	7	9	**12**
NO	72	**78**	74	72	**60**

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). H4. Single answer only allowed at this question.

Those with above average credit risk scores were significantly more likely than average to have sought finance. This was the case both in SBS 2012 (37 per cent) and SBS 2010 (38 per cent).

Reasons for applying for finance

Overall among all SME employers in SBS 2012, of those that applied for finance, 56 per cent did so to acquire working capital or for cash flow reasons, 23 per cent to acquire capital equipment or vehicles, nine per cent to buy land or buildings and eight per cent to improve buildings.

Table 6.2: Main reasons for applying for finance – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	1409	317	389	419	233
	%	%	%	%	%
Working capital, cash flow	56	58	**46**	56	**72**
Capital equipment or vehicles	23	28	**28**	**16**	18
Buying land or buildings	9	9	11	10	**2**
Improving buildings	8	5	13	8	**1**
Research & development	5	3	7	4	4
SBS 2010 (n=)	1193	309	323	323	154
	%	%	%	%	%
Working capital, cash flow	56	60	58	55	52
Capital equipment or vehicles	21	**15**	23	17	27
Buying land or buildings	10	10	8	12	11
Improving buildings	9	7	8	11	6
Research & development	2	3	1	1	2

Base = all SME employers that applied for finance in the last 12 months

Figures in bold were statistically significant at the 95% confidence level for SBS 2012 against SBS 2010. H5. Multiple answers allowed at this question.

Those with above average credit risk scores were significantly more likely than average to have applied for finance for working capital/cash flow (72 per cent). They were significantly less likely than average to have applied for finance to buy land or buildings or for the purpose of improving businesses.

Type of finance sought

Table 6.3: Main types of finance sought – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	1409	317	389	419	233
	%	%	%	%	%
Bank loan	48	43	49	49	**56**
Bank overdraft	35	28	**28**	37	**48**
Leasing/HP	8	**14**	11	**5**	6
Grant	7	**17**	**3**	5	4
Asset finance	6	**3**	**10**	3	6
SBS 2010 (n=)	1193	309	323	323	154
	%	%	%	%	%
Bank loan	40	**31**	40	**47**	39
Bank overdraft	35	29	38	35	38
Leasing/HP	9	6	12	8	8
Grant	9	**20**	7	**2**	7
Asset finance	3	2	3	3	5

Base = all SME employers that applied for finance in the last 12 months

* = a figure greater than zero, but less than 0.5%. Figures in bold were statistically significant at the 95% confidence level for SBS 2012 against SBS 2010 at the 95% confidence level. H6. Multiple answers allowed at this question.

Forty-eight per cent of the SME employers that sought finance in the previous twelve months applied for bank loans. Thirty-five per cent applied for bank overdrafts, eight per cent for leasing or hire purchase arrangements, seven per cent for a grant and six per cent factoring or invoice discounting (asset based finance).

Those with above average credit risk scores in 2012 were significantly more likely than average to have applied for bank finance (56 per cent bank loans and 48 per cent overdrafts). Those with minimal risk scores were more likely than average to have applied for alternative sources of finance (14 per cent leasing/HP, 17 per cent grants).

Difficulties in obtaining finance

Among all SME employers that had sought finance, 47 per cent had some form of difficulty getting the money from the first source they approached. Thirty-two per cent were unable to obtain any finance, six per cent obtained some finance but not all they needed and nine per cent obtained all they needed, but with some difficulties.

Table 6.4: Any difficulty obtaining finance from first source approached – trends by size

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	1409	317	389	419	233
	%	%	%	%	%
ANY DIFFICULTY	47	**32**	48	53	49
- Unable to obtain any finance	32	**20**	33	**39**	32
- Obtained some but not all	6	7	5	5	8
- Obtained all but with difficulty	9	**4**	10	9	9
NO DIFFICULTIES	49	**65**	49	44	47
SBS 2010 (n=)	1193	309	323	323	154
	%	%	%	%	%
ANY DIFFICULTY	51	45	**43**	**60**	50
- Unable to obtain any finance	35	31	**26**	**42**	38
- Obtained some but not all	7	7	8	7	4
- Obtained all but with difficulty	9	7	9	11	8
NO DIFFICULTIES	47	52	**56**	**38**	48

Base = all SME employers that applied for finance in the last 12 months

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). H9. Single answer only allowed at this question.

Those with minimal risk scores were the least likely to encounter difficulties (32 per cent). It is notable that those with average risk scores in 2012 were the most likely to not be able to obtain any finance from the first source they approached (39 per cent), when it might be assumed that those with above average risk scores would have the most problems in this respect.

The fact that those with minimal risk scores had fewer difficulties obtaining finance might be due to the fact that they were more inclined to apply for types of finance with higher approval ratings, such as leasing/HP (only ten per cent of those that applied for this were unable to get any finance). However, looking just at those that sought bank loans or overdrafts in 2012, it was also the case that those with minimal risk scores were less likely to encounter difficulties. Only 37 per cent of those with minimal risk scores had problems getting bank finance, compared to the overall average of 53 per cent.

Table 6.5: Any difficulty obtaining finance from first source approached – bank loans and overdrafts only – by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	930	180	261	300	162
	%	%	%	%	%
ANY DIFFICULTY	53	**37**	57	57	54
- Unable to obtain any finance	37	**25**	41	42	35
- Obtained some but not all	7	7	6	5	9
- Obtained all but with difficulty	9	5	10	10	9
NO DIFFICULTIES	43	**62**	39	39	43
Don't know/Still Pending	3	1	4	4	3

Base = all SME employers that applied for bank loans or overdrafts in the last 12 months

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). H9. Single answer only allowed at this question.

Therefore, it appears that banks do base their decisions to some extent on risk scores, but it is notable that there were no significant differences in the proportion experiencing difficulties obtaining finance from banks in the low, average and above average credit risk groups.

Of those that did not obtain finance from the first source they approached, some went to alternative providers and were successful. Overall, of SME employers that sought finance in 2012, 68 per cent obtained all that they needed (58 per cent from the first source, ten per cent from another source). Seven per cent obtained some but not all the needed, and 21 per cent obtained none.

By credit risk score, the pattern was the same as it was for experience of difficulties from the first source approached. Those in the minimal risk category were significantly more likely to have obtained all that they needed (79 per cent), whilst there were no significant differences for this among the other credit risk groups.

Table 6.6: Eventual outcome of application for finance – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	1409	317	389	419	233
	%	%	%	%	%
OBTAINED ALL THEY NEEDED	68	**79**	69	64	64
- From first source	58	**69**	59	53	56
- From another source	10	10	10	10	8
OBTAINED SOME BUT NOT ALL	7	7	5	8	8
OBTAINED NONE	21	**11**	23	25	24
Don't know/still pending/refused	4	3	4	4	4
SBS 2010 (n=)	1193	309	323	323	154
	%	%	%	%	%
OBTAINED ALL THEY NEEDED	68	70	**75**	63	65
- From first source	56	60	**65**	**48**	56
- From another source	11	10	10	14	10
OBTAINED SOME BUT NOT ALL	6	7	7	6	7
OBTAINED NONE	21	18	15	24	23
Don't know/still pending/refused	5	5	3	7	5

Base = all SME employers that applied for finance in the last 12 months

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). H9/H13. Single answer only allowed at this question.

Reasons for difficulties arranging finance

The main reason given among all SME employers for having difficulties with the first provider approached was that the SME employer did not meet the lender's criteria (38 per cent). Other reasons given were having a poor credit history (nine per cent), having insufficient or no security (six per cent), having no credit history or not being in business long enough (five per cent). Nine per cent were made an offer, but they rejected the terms and conditions of the offer.

There were no significant differences in the reasons for having difficulties arranging finance by credit risk score.

Extent to which SMEs understand the way in which banks assess business credit worthiness

Seventy-one per cent of all SME employers that applied for finance said that they understood the way in which banks assess credit worthiness well (33 per cent very well, 38 per cent quite well). Twenty-nine per cent did not understand it well.

Table 6.7: Extent to which SMEs understand the way in which banks assess business credit worthiness – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	1409	317	389	419	233
	%	%	%	%	%
UNDERSTAND WELL	71	71	**76**	68	65
- Very well	33	32	35	33	27
- Quite well	38	39	41	36	38
DO NOT UNDERSTAND WELL	29	27	**23**	31	**35**
- Not very well	17	16	14	18	21
- Not at all well	12	11	9	13	14
SBS 2010 (n=)	1193	309	323	323	154
	%	%	%	%	%
UNDERSTAND WELL	56	51	58	59	**44**
- Very well	20	**15**	22	22	19
- Quite well	35	36	37	37	**25**
DO NOT UNDERSTAND WELL	42	44	41	39	**52**
- Not very well	26	27	26	25	29
- Not at all well	16	17	15	14	**23**

Base = all SME employers that applied for finance in the last 12 months

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). H15. Single answer only allowed at this question.

Overall the proportion that claim to understand how banks assess credit worthiness has increased significantly between 2010 and 2012, and this was indeed the case for all the credit risk groups. The low risk group was the most likely to understand this well in 2012 (76 per cent), and the above average risk group the most likely to not understand it (35 per cent).

Relationship with bank

Sixty per cent of all SME employers had a good relationship with their bank. This was more likely to be the case for the larger SMEs (73 per cent).

Table 6.8: Whether have a good relationship with bank – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
GOOD	60	**66**	61	**58**	58
- Very good	33	**37**	30	33	32
- Fairly good	27	29	**31**	25	26
NEITHER GOOD NOR POOR	21	**17**	22	24	19
POOR	16	14	15	17	**20**
- Fairly poor	8	7	7	10	9
- Very poor	8	7	8	7	**11**

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). H1. Single answer only allowed at this question.

Those in the minimal risk group were the most likely to have a good relationship with their bank (66 per cent), those in the average risk group the least likely to have a good relationship (58 per cent), and those in the above average risk group were the most likely to have a poor relationship (20 per cent).

Awareness of alternative types of external finance

Fifty-eight per cent of SME employers were aware of venture capitalists. Those with minimal risk credit scores were the most likely to be aware (63 per cent), and those with average risk scores were the least likely to be aware of them (54 per cent).

Forty-seven per cent of all SME employers were aware of asset finance. This proportion was highest for those with above average risk scores (53 per cent), and lowest for those with average risk scores (41 per cent).

Overall, those with minimal and low risk were the most likely to be aware of the alternative types of finance prompted (72 per cent and 71 per cent respectively had heard of any), and those with average risk scores were the least aware (63 per cent had heard of any). Those with above average risk scores were no more or less likely to be aware of any.

Table 6.9: Awareness of alternative types of finance – by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
Venture capitalists	58	**63**	**62**	**53**	56
Asset finance	47	**50**	49	**41**	**53**
Business angels	33	35	34	33	30
Peer to peer lending	28	28	30	27	26
Mezzanine finance	16	14	16	15	16
None of these/ Don't know	32	**28**	**29**	**37**	31

Base = all SME employers

* = a figure greater than zero, but less than 0.5%. Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). H2/3. Multiple answers allowed at this question.

Late payment

Forty-seven per cent of all SME employers had a problem with customers paying them later than required. This was more likely to be the case for the larger SMEs.

Table 6.10: Whether have a problem with customers paying later than required – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
ANY PROBLEM	47	45	47	48	46
- Big problem	19	17	16	20	21
- Small problem	29	29	30	28	25
NO PROBLEM	48	51	49	46	50
Not relevant – do not give credit	4	3	4	5	4

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). H19. Single answer only allowed at this question.

There were no significant differences in these proportions according to credit score. The question on whether SME employers paid their own bills promptly was not asked.

7. Obstacles to the Success of the Business

This section explores the barriers and obstacles that SME employers report as restricting their business success,, and whether those with poorer credit risk scores face different challenges from those with more favourable scores.

Obstacles to the success of the business

Respondents were read a list of issues and asked which, if any, represented obstacles to the success of their business.

Overall, 78 per cent of SME employers said that the economy was an obstacle to the success of their business. Fifty-seven per cent cited taxation (including VAT, PAYE, NI and rates), 56 per cent competition in the market, 52 per cent regulations, 50 per cent cash flow, 38 per cent obtaining finance, 28 per cent a general shortage of skills, 25 per cent recruiting staff, 22 per cent the availability of suitable premises, 17 per cent pensions and 15 per cent the lack of managerial skills and expertise.

There were some notable differences according to credit risk score. While overall 38 per cent cited obtaining finance as an obstacle, this proportion was 58 per cent for those with above average credit risk scores, and just 29 per cent for those with minimal risk scores.

Cashflow was an obstacle for 50 per cent of all SME employers, but an obstacle for 67 per cent of those with above average credit risk scores, and just 37 per cent of those with minimal risk scores.

Taxation, national insurance etc. was an obstacle for 57 per cent of all SME employers, but an obstacle for 64 per cent of those with above average risk scores, and just 49 per cent for those with minimal risk scores.

Those with above average credit risk scores were also more likely than average to cite availability of suitable premises and shortage of managerial skills and expertise as obstacles.

Main obstacle

Respondents were then asked which of the obstacles they had reported was the main obstacle to the success of the business,. The economy was cited by 38 per cent of SME employers – a five percentage point increase on SBS 2010; taxation was the main obstacle for 12 per cent – a four percentage increase on 2010 and cash flow and competition were mentioned by ten per cent each. Eight per cent identified regulations and seven per cent obtaining finance as their main obstacle.

Table 7.1: Main obstacle to the success of the business – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
The economy	38	39	40	38	**29**
Taxation, VAT, PAYE, NI, rates	12	**9**	12	11	**18**
Cash flow	10	**6**	9	11	**13**
Competition	10	10	9	10	8
Regulations	8	**11**	9	7	**5**
Obtaining finance	7	**8**	**5**	6	**11**
SBS 2010 (n=)	3817	1144	1113	947	359
	%	%	%	%	%
The economy	33	**38**	33	32	**27**
Cash flow	11	**5**	12	13	**16**
Competition	10	11	11	7	10
Taxation, VAT, PAYE, NI, rates	8	**3**	8	**10**	**14**
Obtaining finance	8	7	6	8	**11**
Regulations	7	8	7	6	5

Base = all SME employers

* = a figure greater than zero, but less than 0.5%. Figures in bold were statistically significant at the 95% confidence level for SBS 2012 against SBS 2010. G2. Single answer only allowed at this question.

Those with above average credit risk scores were less likely than average to mention the economy as their main obstacle, but were more likely than average to cite taxation (18 per cent), cash flow (13 per cent) and obtaining finance (11 per cent).

Cash flow

Those that said that cash flow was an obstacle to their business success were read a list of possible causes of cash flow difficulties and asked which applied to them. Multiple answers were allowed.

Table 7.2: Causes of cash flow difficulties –by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	2221	436	612	766	348
	%	%	%	%	%
Income fluctuates while outgoings were steady	75	74	75	75	**80**
Late payment from individual customers	60	58	**56**	62	62
Late payment from other businesses	56	**50**	54	59	**62**
High levels of working capital required	51	**57**	**47**	50	**59**
Timing of tax payments	48	**44**	47	48	47
Individual customers expect credit	47	44	47	47	50
Outgoings fluctuate while income is steady	41	40	39	43	**36**
Early payment required by suppliers	39	36	**33**	40	**45**
High levels of investment required	38	**43**	**33**	36	**45**
Difficult/expensive to get credit from suppliers	31	**23**	**26**	33	**44**

Base = all SME employers considering cash flow to be an obstacle to business success

* = a figure greater than zero, but less than 0.5%. Figures in bold were statistically significant higher at the 95% confidence level for SBS 2012 against SBS 2010. G4. Multiple answers allowed at this question.

Those with above average risk were significantly more likely than average to mention most causes of cash flow difficulties. Eighty per cent agreed that their income fluctuated while outgoings were steady, 62 per cent that they were paid late by other businesses, and 59 per cent that high levels of working capital were required. They were also more likely than average to have to pay suppliers early (45 per cent), require high levels of investment (45 per cent), and it was more difficult or expensive for them to get credit from suppliers (44 per cent). They were less likely than average to experience fluctuating outgoings with steady income.

8. Business support

Whether sought external information or advice in the last twelve months

Forty-five per cent of SME employers in 2012 had sought external information or advice in the twelve months preceding interview.

Table 8.1: Whether sought information or advice in the last 12 months – trends by credit risk score

	All SME employers	Minimal risk	Low risk	Average risk	Above Average risk
SBS 2012 (n=)	4768	1228	1370	1478	540
	%	%	%	%	%
Any information or advice	45	**56**	45	**40**	46
SBS 2010 (n=)	3817	1144	1113	947	359
	%	%	%	%	%
Any information or advice	49	**55**	50	**42**	46

Base = all SME employers

Figures in bold were statistically significant at the 95% confidence level against the overall finding (minus the sub-group tested). K2. Single answer only allowed at this question.

Those with minimal risk were more likely than average to have received information or advice (56 per cent), and those with average risk were the least likely to have received this (40 per cent).

Those with above average risk scores were more likely than average in 2012 to be seeking information or advice for the purposes of business growth (34 per cent compared to 22 per cent of all SME employers seeking information or advice), how and where to obtain finance (16 per cent compared to ten per cent of all) and exporting (four per cent compared to two per cent of all). They were less likely than average to be seeking advice on tax payments (five per cent compared to 12 per cent of all) or employment law (seven per cent compared to 14 per cent of all).

Compared to the overall figures for all SME employers that sought information or advice, those with above average credit scores were more likely than average to go to their banks (17 per cent compared to 12 per cent for all), and business networks (nine per cent compared to 13 per cent for all).

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