FINANCE OPPORTUNITIES AND FUNDING METHODS IN THE MICROENTERPRISE

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ABSTRACT

In Maryland, microbusinesses comprise 88% of businesses and jobs for over one-half million people. A survey was mailed state-wide to microenterprises to determine access to capital, use of capital, and the future outlook on the impact of obtaining or not obtaining adequate capital to fund the business. Findings show an older, more educated, and wealthier microbusiness community than previously thought; most participants felt adequately financed; nearly half did not borrow funds to start up the business; over the next year, most felt their financial liabilities would remain stable; and a high number used personal credit cards for funding purposes.

Key Words: Micro-Finance, Entrepreneurship, Capital, Micro-Business

EXECUTIVE SUMMARY

Microenterprises, or those with fewer than 5 employees, are the backbone of small business in the State of Maryland (88% of all business) and in the United States (over one-half of all business (McGibbon & Moutray, 2009). The importance of these small enterprises cannot be overstated as they are the breeding grounds for new technology, new process, new product, and new ways of operating. In spite of their core role in entrepreneurial activity, not a lot of research is done that looks specifically at microbusiness.

This research surveyed those businesses with fewer than five employees in the State of Maryland in regard to their approach in capitalizing the enterprise, both for start up and for operations. The study also looked at what ways they fund the enterprise, their access to and sources of capital, their perspectives on upcoming, potential financial liabilities, and other variables. The survey was developed based on interviews of microbusiness owners and mailed to just under 10,000 individuals. Analysis was conducted using SPSS.

Findings include general demographics that reveal enterprises with some length of time in business, owners with some college or college educated, very predominately male, predominantly professional business types (attorneys, CPAs, consultants), and mostly sole proprietorships. Most businesses reported that they had access to adequate capital both for start up and for operations. Nearly one-half did not borrow money to start the business but rather used personal funds or loans. Younger businesses were interested in developing financial skills. About one-half expected that their financial liabilities would remain static over the next year. And using personal credit cards to fund the business was a method used by about one-third of participants. A small number used online financing sources (9.5%).

INTRODUCTION

Microenterprise Council of Maryland states that “Microenterprise is a business that employs five or fewer people, has an inadequate capacity to access traditional business services and a capitalization need of $35,000 or less.” (Maryland", 2011).

In the State of Maryland, microenterprises account for 88% of all businesses, 17.8% of all employment, providing jobs for over a half-million people, and are considered critical as a focus of public investment with returns of more than $3 for every dollar invested and 57% of micro businesses are still in business after five years (Maryland, 2008; Maryland", 2011). Many of those enterprises that are successfully nurtured will become larger businesses, employing more, and contributing significantly to the tax base of the state. It is to everyone’s benefit to foster microenterprise. But, according to Maryland state officials, not enough is known.

In many respects Maryland is representative of the whole country. For example, micro enterprises are 8.4% of the total population compared to 8.1% of the entire United States. Non-Caucasian in Maryland-owned firms 30.8% compared to 21.2% in the US (Census, 2010). Maryland has a population of 5,773,552 with a growth rate of 9%. The population is 58.2% Caucasian, 29.4% Black, 8.2% Hispanic, and 5.5% Asian. Other ethnicities range at or below 1% (Census, 2010).

Maryland has a large rural population and large urban centers. Rural area micro businesses employ 20.5% and urban-located micro businesses employ 17.8% (Kelly & Kawakami, 2008). There is a concerted effort in Maryland to support rural micro business development with TEDCO’s recent addition of a rural representative in Western Maryland. With all that is known regarding the importance of microbusiness, there have been, until now, no studies of micro businesses conducted in the state of Maryland. And, as yet, little research on microenterprise or those small businesses with fewer than five employees, in the United States.

Additionally, although research that looks at financing of startups and funding of small business operations is fairly extensive, little is known specifically about the microenterprise in terms of how they obtain and use capital. Because of the importance of these enterprises, this research area needs pursuing.

LITERATURE REVIEW

A review of entrepreneurship literature indicates there is a great amount of research providing statistics on new business startups related to gender, socioeconomic status, ethnicity, geographic area, and type of business. There is also a significant amount of literature that addresses why businesses succeed or fail, and what comprises the definitions of success and/or failure. The federal government and a number of state governments publish extensive studies on new business startups with demographic and geographic information regarding these enterprises.

Microenterprise Funding

Not only is the literature limited regarding micro enterprise in general, it is especially lacking in looking at financing methods and opportunities in these firms. Parker (2004) discusses the fact that most startup finance in developed countries tends to be personal equity or self-financing. But, many complain that they are unable to obtain enough funding to adequately capitalize the new business. It is undeniably more challenging for a new business or a startup to meet the requirements of formal, external funding sources.

Ashe (2000) examines the ten year history of Working Capital, a United States micro lending program, and the findings included the following:

- There are a large number of entrepreneurs whose enterprises are ‘invisible,’ based at home, serving local markets, and providing mostly supplemental income.
- These enterprises do not obtain loans from banks or institutions that provide financing or guide and support very small enterprises.
- Many of Working Capital clients move from the financing opportunities provided by the organization directly to financing methods such as supplier credit without utilizing bank financing.

A key study that looked at factors related to enterprise finance or start up funding was the Panel Study on Entrepreneurial Dynamics (PSED). In examining funding of the startup, the PSED found that nascent entrepreneurs avoided external funding sources and utilized internal funding sources (Stouder & Kirchoff, 2004). If internal sources are not sufficient, then banks may be utilized or other loan sources such as family and friends. Venture capital sources are rarely used. Stouder and Kirchoff (2004) discuss the lack of research on finance for the startup or small firms and discuss how modern finance theory is based on large, publicly traded, efficient, firms in a well developed capital market. The study finds that slightly over 30% of the total dollar funding comes from the entrepreneur's personal contributions plus credit cards and only 5.76% came from family and friends. Banks and other institutional lenders provided 44.19% of funding. The study concludes that financing from family and friends, previously thought to be a major source, is in fact not. Nor is venture capital funding a significant source of funding when only 0.4% of new businesses received venture funding each year.

Brinckmann, Salomo, & Gemuenden (2009) found that financing through cash flow from operations was a predictor of sales and employment growth in high technology firms rather than dependence on external financing.

Brown & Haynes (2009) found a strong, positive relation between the level of internal funds (self financing, credit cards, cash from operations) and employee growth in small firms and the smaller the firm the stronger the link. Severe internal fund constraints are faced by very small firms and minority-owned firms (Brown & Haynes, 2009).

Drawn from the PSED II study, informal financing, or before the firm is legally formed; and formal financing or after the legal formation indicates that personal savings constitutes the largest funding source pre-legal formation (84.4%) while formal funding is more varied drawing from SBA-backed loans, personal loans from the founder, credit cards, and loans from family and friends; Reynolds (2011). Informal financial support resulted in a higher percentage of businesses that quit than formal financial support. The average amount of informal funding is about $48,000 versus the average amount of formal funding which is $200,000.

Gender Difference in Funding Small Enterprises

Gender differences in how the small business capitalizes seem to be consistent across several studies. In spite of gaining in numbers, with women-owned business constituting about 28% of all firms, women still have problems accessing capital. Women tend to rely on personal rather than external sources of debt and equity, start their firms with considerably lower amounts of capital than do men, and raise lower amounts of debt and equity in years two and three of the business operation (Coleman, 2009). Women are less successful securing bank loans and are more reluctant even to apply. When they do apply, the amount of the loan application request tends to be less than men. Whatever the source of capital, "women do not raise enough of it"; Coleman (2009). Women as owners tended to utilize their own personal credit cards as well as business credit cards for financing methods followed by bank loans and family loans.

In a study of Canadian small and medium enterprises, women were less likely than men to possess human capital (education, years of experience) and social capital (length of banking relationship), this is according to Orser, Riding, & Manley (2006). Women-owned firms were less likely to experience rapid sales growth. They are less likely to apply for debt or to seek any form of external capital. After controlling for size and business sector, women owners were significantly less likely than men to seek equity financing. Rates for turning down loans, once applied for, did not seem to be different between men and women.

A longitudinal study of new businesses in Norway, found that while there are few gender differences in terms of funding perceptions and behavior, women obtain significantly less financial capital to develop new businesses. According to Alsos, Isaksen, & Ljunggren (2006), due to these lower levels of financial capital investments, women-owned businesses tend to achieve lower early sales growth; . Lastly, they posit that women tend to use the revenue from their ventures as supplemental income, which is perhaps why they utilize outside financing less than men

Financial Bootstrapping as a Funding Method

The closest study to this one was conducted by Winborg and Landstrom (2000) with 900 small business managers in Sweden. In this study, the use of financial bootstrapping was surveyed. 32 types of bootstrapping methods were identified and classified into six clusters: delaying bootstrappers, relationship-bootstrappers, subsidy-oriented bootstrappers, minimizing bootstrappers, non-bootstrappers, and private owner-financed bootstrappers. Each method showed a different approach to resource acquisition varying across internal modes (delaying, private-owner, and minimizing bootstrappers); a socially-oriented mode (relationship-oriented bootstrapping); and a quasi-market or external mode (subsidy-oriented bootstrapping).

Again, the study supports prior findings that external sources of financing are difficult to obtain by small business entities, which is likely why the small business turns to such a large dependence on bootstrapping. The methods most commonly used are: buy used equipment rather than new (78%); seek out the best conditions with suppliers (74%); withhold manager's salary (45%); deliberately delay payments to suppliers (44%); use routines for speeding up invoicing (44%); and borrow equipment from other businesses (42%).

The six bootstrapping methods least used were: obtain a subsidy from a Swedish foundation "Innovationspectrum" (not used at all); raise capital from a factoring company (3%); obtain subsidy from the Swedish National Board for Industrial and Technical Development (6%); obtain subsidy from the Swedish County Labor Board (8%); share employees with other businesses (8%); and share equipment with other businesses (8%).

Additionally,Van Auken (2004) ranked bootstrap financing in small high technology firms. Bootstrapping methods most often used were (from most used to 10th most used): negotiate best terms with suppliers, cease business with late payers, offer same terms to all customers, buy used equipment, speed up invoicing, lease rather than purchase equipment, use routines to minimize capital investment, obtain advance payments from customers, deliberately delay payments to suppliers, and hire temporary personnel.

In a similar study, Harrison, Mason, and Girling, (2004) found that small UK software firms also used bootstrapping methods in a similar manner with delay of payments to suppliers as a number one technique, followed by: bartering, use of personal credit cards, discounted advance payments to suppliers, utilizing very low rent spaces, deals with professional providers at below market rates, leasing rather than purchasing assets, and working from home. Consistently, the above studies discuss the difficulty that small business has in obtaining external financing, banks, or venture capital and how the small firm turns to internal methods, most particularly bootstrapping methods, to fund the venture. Women-owned small businesses have an even more difficult time of obtaining outside financing.

In the current research study, we explore availability of funding, types of funding, and differences in experiences based on gender, educational level, number of years in business, and sales volume in the microbusiness.

RESEARCH METHOD

The purpose of this study was to ascertain the financing needs, methods, access to and perception of capital to microentrepreneurs in the State of Maryland. In order to determine the financing issues facing micro business that are most germane to the microbusiness owner, questions were developed from conversations with practicing entrepreneurs. A list of twelve types of methods of financing was created (commercial bank loans, SBA guaranteed loans, credit cards, leasing, personal or home ,equity loans,loans from family or friends, personal savings, selling accounts receivables, venture capital/angel investors, stock sales, trade credit, and no financing required).Micro business owners were asked to select any and all of the methods that applied to them.

The survey consisted of a 40 item questionnaire a cover letter, and a return envelope and was mailed to develop the micro entrepreneur profile and determine sources and experiences with financing the business. The mailed quantity was to a list of 9,184 micro enterprise businesses in the State of Maryland (with 0 - 4 employees). A total of 959 usable responses were gathered for a response rate of 10.44%, well within the desired response to a survey mailing; Fowler (1998) and (2002). The survey specifically asks for information about start up and ongoing financing as well as other questions related to functions that are core to any small business enterprise**.** The data was entered and analyzed with Excel and SPSS.

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FINDINGS

Research Hypothesis

There is no difference between the financing needs and perceptions of Micro entrepreneurs in Maryland based on gender, level of education, length of time in operation, annual sales and the type of business.

Research Questions

1. Has your business been able to obtain adequate financing?
2. Did you have to borrow money to start your business, and if so, how much did you have to borrow, and did you need assistance in making the application?
3. Is your business your sole source of income, a supplemental source of income, or other?
4. Do microbusiness owners want to develop greater financial skills?
5. What are your expectations for your financial liabilities in the next year?
6. What is your perception of capital as a success or challenge factor?
7. What methods are used for financing your business?

Results and Discussion

Nearly 1000 responses from micro entrepreneurs representing the entire state of Maryland were received. The respondents were predominantly male (70%), had at least a four year college degree (54%), have been in operation over ten years (64%), annual sales over $100,000 (72%), offered professional services (31%) and had a sole proprietorship structure (33%). The majority of the firms were in the maturity stage with 64% being in operation for at least ten years. Interestingly, nearly two-thirds of the respondents claimed their business was their sole means of financial support. Due to the skewness of the responses, the level of education, length of time in operation, and annual sales data were converted and compressed (see Table 1).

Table 1

Demographics

Owners' Level of Education

	Frequency	Percent
Not HS Diploma	11	1.1
High School Diploma	167	17.4
Some College	205	21.4
2 yr CC	57	5.9
4 yr Degree	288	30
Graduate degree	231	24.1
Total	959	100

Length of Time in Operation

	Frequency	Percent
< 1 yr	8	0.8
1-3 yrs	81	8.4
4-6 yrs	121	12.6
7-10 yrs	136	14.1
> 10 yrs	618	64.1
Total	964	100

Converted Level of Education

	Frequency	Percent
< 4 yr degree	440	45.9
> 4 yr degree	516	54.1
Total	953	100

Converted Length of Time in Operation

	Frequency	Percent
<10 yrs	346	35.9
>10 yrs	618	64.1
Total	964	100

Converted Annual Sales

	Frequency	Percent
Sales < 100K	259	28.2
Sales > 100K	660	71.8
Total	919	100

Annual Sales

	Frequency	Percent
< $10 K	47	5.1
10-25K	28	3
25-50K	64	7
50-100K	120	13.1
100-500K	405	44.1
500-1,000K	108	11.8
> 1,000K	147	16
Total	919	100

Business as a Source of income

	Frequency	*Percent*
Sole Source	*605*	*64.6*
Supplemental	*287*	*30.6*
Other	*45*	*4.8*
	937	*100.0*

Business Focus

	Frequency	Percent	
Professional	284	30.7	
Construction	103	11.1	
Manufacturing	37	4	
Distributor/Wholesale	27	2.9	
Retail	196	21.2	
Transportation	14	1.5	
Finance, Ins, R Estate	129	14	
Other for profit	13	1.4	
Other		121	13.1
Total	924	100	

Has your business been able to obtain adequate financing?

Regarding financing, over three fourths of the respondents reported having adequate financing. However, statistically significant differences were found with those with an education of at least a four year degree, and with firms that had annual sales over one hundred thousand dollars (see Table 2).

Table 2
Firms that have been able to Obtain Adequate Financing in %

Total	85.4	**r**	**p**
Female	80.4	none	
Male	87.4		
< 4 yr degree	81.9	-.091	.008
> 4 yr degree	88.3		
Sales < 100K	24.5	-.115	.001
Sales > 100K	75.5		
<10 yrs	83.9		
>10 yrs	86.2	none	
Professional	88.6	none	
Construction	81.4		
Manufacturing	88.6		
Distributor/Wholesale	86.4		
Retail	80.0		
Transportation	66.7		
R & D	100.0		
Finance, Ins, Real estate	89.8		
Other for profit	90.9		
Other	83.7		

1. **Did you have to borrow money to start your business, and if so, how much did you have to borrow and did you need assistance in making the application?**

Surprisingly, nearly half of the respondents did not borrow any money to begin their business. Using an arbitrary benchmark of $35,000 to gauge the level of funds needed, 27% borrowed less than this amount, while 21.5% borrowed more. There were no statistical differences between the groups. Interestingly, 69% of small construction firms did not have to borrow funds (see Table 5). However, no statistically significant differences were found. Interestingly, less than five percent of owners utilized loan application assistance. Female owners, firms had been in operation less than ten years, and Retail and "Other" businesses utilized this service most (see Table 3).

Table 3

Amount of Money Borrowed and Received Loan Application Assistance in %

	< $35,000	**> $35,000**	**Did Not Borrow**	**Loan App**	**r**	**p**
Total	27	21.5	48	4.8		
Female	27.6	20	45.7	6.3		
Male	26.8	22	48.8	4.1		
< 4 yr degree	24.2	22.5	47.8	4.6		
> 4 yr degree	29.6	21.4	47.1	5		
Sales < 100K	27.9	12.5	57.7	2.7		
Sales > 100K	27.6	25.4	42.9	5.2		
<10 yrs	24.2	28	42.7	6.6	.066	.041
>10 yrs	28.9	17.2	51.5	3.7		
Professional	30.8	13.3	51.7	1.8	-.108	.001
Construction	20.5	7.7	69.2	1.9		
Manufacturing	26.1	26.1	43.5	5.4		
Distributor/Wholesale	55.6		44.4	0		
Retail	20	36	41	8.7		
Transportation	20	20	60	7.1		
Finance, Ins, Real estate	33.9	26.8	37.5	3.9		
Other for profit	100			9.1		
Other	18.4	21.1	52.6			

2. **Is your business your sole source of income, a supplemental source of income or other?**

For nearly two-thirds of the respondents, the enterprise was the sole source of income. Males were more apt to have their business be their only source of income. Similarly were firms with sales over $100K and firms that had been in business for over ten years. These categories revealed statistically significant differences. Conversely, evidence from Alsos, et al. (2006); Loscocco and Smith-Hunter, (2004); and Orser, et al., (2006) suggest that more female microentrepreneurs with lower annual revenues utilized their business as a supplemental source of income. This is consistent with prior research (see Table 4).

Table 4
Business as Source of Income in %

	Sole Source	Supplemental	Other	Statistical Differences	
Total	64.4	30.5	4.8	**r**	**p**
Female	47.4	43.8	8.4		
Male	71.4	25.0	3.3	-.213	.000
< 4yr degree	68.2	25.9	5.7		
>4 yr degree	61.3	34.2	4.2	none	
Sales < 100K	34.8	55.1	9.7		
Sales > 100K	75.3	21.5	2.9	-.308	.000
<10 yrs	57.9	33.2	8.3		
>10yrs	68.0	29.0	2.8	-.111	.001
Professional	64.3	32.5	2.9	none	
Construction	78.0	19.0	3.0		
Manufacturing	77.1	20.0	2.9		
Distributor/Wholesale	66.7	33.3			
Retail	49.5	40.0	10.5		
Transportation	61.5	38.5			
R & D		100.0			
Finance, Ins, Real estate	75.6	21.3	2.4		
Other for profit	53.8	38.5	7.7		
Other	58.5	33.9	6.8		

3. Do micro business owners want to develop greater financial skills?

Surprisingly, only ten percent expressed an interest in developing greater financial skills. Those with less than a four year degree, and owners who had their businesses less than ten years were more desirous of developing greater financial skills. Interestingly, 21% of microbusiness owners in manufacturing were the most eager to receive this training (see Table 5).

Table 5
Desire to Develop Greater Financial Skills in %

Total	10.0	**r**	**P**
Female	10.5		
Male	9.76		
< 4 yr degree	12.4	.077	.017
> 4 yr degree	7.75		
Sales < 100K	11.7		
Sales > 100K	9.3		
<10 yrs	13	.076	.018
>10 yrs	8.3		
Professional	8.1		
Construction	10.7		
Manufacturing	21.6		

Distributor/Wholesale	11.1
Retail	12.8
Transportation	7.1
Finance, Ins, Real estate	7.0
Other	11.6

4. What are your expectations for your financial liabilities in the next year?

With regards to the upcoming year, over half of the owners expect their financial liabilities to remain stable. Nearly 30% are optimistic and expect their liabilities to decrease while 18% expect their liabilities to increase. This increase is found with those who had less than a Bachelor's degree and had been in operation less than ten years. In addition, 60% of professional service providers and those with sales of less than $100K perceived their liabilities will remain the same (see Table 6).

Table 6
Expectations of financial liabilities for the next year in %

	Increase	Decrease	Stay the Same	Stat. Diff	
Total	17.9	29.4	52.5	**r**	**p**
Female	15.9	25.7	58.4		
Male	18.8	30.9	50.0	None	
< 4 yr degree	21.5	30.6	47.9	.091	.009
> 4 yr degree	15.2	28.6	55.7		
Sales < 100K	14.0	25.3	60.7		
Sales > 100K	19.4	31.1	49.2	-.099	.004
<10 yrs	21.8	28.9	49.3		
>10 yrs	15.7	29.8	54.1	None	
Professional	13.3	25.8	60.2	-.091	.009
Construction	17.3	29.6	53.1		
Manufacturing	27.3	21.2	51.5		
Distributor/Wholesale	24.0	32.0	44.0		
Retail	19.5	26.4	54.0		
Transportation	36.4	27.3	36.4		
Finance, Ins, Real estate	19.2	34.6	46.2		
Other for profit	9.1	36.4	54.5		
Other	21.0	36.0	43.0		

5. What is your perception of capital as a success or challenge factor?

Surprisingly less than 11% of respondents perceived additional capital was needed for their continued success. Owners with less than a four year degree and those firms which had been in business for less than ten years had a greater appreciation of the need for more capital. However, when owners were asked if access to capital presented a problem for future growth, only slightly more, 13.7%, perceived this as a potential issue. Those with less than a four year degree and those in the construction, retail and transportation businesses were more cognizant of this as a factor for their future growth. Conversely, professional and manufacturing firms were less concerned with access to capital (see Table 7).

Table 7

Additional Capital Needed for Success and Access to Capital Limits Growth in %	Access to Capital Success %			No capital limits growth %		
Total	10.8	**r**	**p**	13.7	**r**	**p**
Female	8			14.7		
Male	12	none		13.3	none	
< 4 yr degree	15.1	.124	.000	16.2	.067	.039
> 4 yr degree	7.4			11.6		
Sales < 100K	11.3			12		
Sales > 100K	10.6	none		14.3	none	
<10 yrs	13.6	.067	.036	16.2		
>10 yrs	9.2			12.3		
Professional	5.6	none		7.7	-.088	.007
Construction	14.6			18.4		
Manufacturing	13.5			5.4		
Distributor/Wholesale	14.8			11.1		
Retail	14.8			18.9		
Transportation	7.1			28.6		
Finance, Ins, Real estate	7.8			9.3		
Other for profit	7.7			23.1		
Other	13.2			17.4		

6. What methods are used for financing your business?

Over a third of micro entrepreneurs used their personal credit cards to financing their business surpassing those who utilized a conventional commercial loan. This is consistent with the high use of personal credit cards found by Harrison, et al. (2004). Using savings and personal loans were the next most employed methods. As Ashe (2000) found, these enterprises tend to move from self-financing to internal bootstrapping methods without utilizing bank financing for operations.

Overall, there are many consistencies with prior research that found a high use of internal bootstrapping methods used by small enterprises, such as obtaining trade credit, see Winborg & Landstrom, (2000). This study found a low use of leasing as a bootstrapping technique as opposed to the higher use Van Auken (2004) found. Selling accounts receivables was not utilized much by participants in this study which is consistent with Van Auken (2004). Not surprising, less than two percent of these firms sold stock or received venture capital investment (see Table 8).

Table 8
Methods used to Finance the Business-Summary in %

Credit Cards	36.8
Commercial Loan	31.2
Savings	24.0
Personal Loan	19.0
No Financing Required	17.3
Loans from Family/Friends	13.3
Leasing	11.9
SBA Loan	8.7
Trade Credit	7.9
Other	2.3
Stock Sales	1.8
Selling Accounts Receivables	1.6
Venture Capital	0.7

Male owned businesses, firms with annual revenues over $100K, and firms who had been in operation for more than ten years were more prone to utilize commercial loans. This is consistent with Coleman (2009) and Ashe (2000). Conversely, firms with sales less than $100K were more likely to use their savings. Conversely, female micro business owners, firms with revenues less than $100K and firms in operation longer than ten years were more likely not to need any financing (see Table 9).

Table 9
Methods Used for Financing in %

	Credit Cards	**Commercial Loan**	**Savings**	**Personal Loan**	**No Financing Required**	**Loans from Family/Friends**
Total	36.8	31.1	24	19	17.3	13.3
Female	39.9	23.1	25.5	20.3	21.7	15.7
Male	35.5	34.5	23.4	18.5	15.4	12.3
< 4 yr degree	40.5	32.7	22.9	21.5	15.8	12.4
> 4 yr degree	33.5	29.8	25	16.7	18.4	14.3
Sales < 100K	33.9	13.4	28.3	18	23.7	14.1
Sales > 100K	38.1	38.4	22.2	19.6	14.4	13
<10 yrs	39	26.9	27.5	22.3	13.3	16.5
>10 yrs	35.8	33.5	22	17.3	19.4	11.5
Professional	31.3	23.2	21.1	14.8	24.6	9.9
Construction	50.5	41.7	21.4	26.2	13.6	12.6
Manufacturing	43.2	37.8	27	16.2	2.7	13.5
Distributor/Wholesale	33.3	22.2	14.8	29.6	25.9	3.7
Retail	37.2	33.2	27	19.4	15.8	19.9
Transportation	28.6	42.9	14.3	21.4	14.3	7.1
Finance, Ins, R. estate	27.1	25.6	27.9	20.2	15.5	14
Other for profit	38.5	38.5	23.1	15.4	15.4	7.7
Other	43.8	36.4	27.3	17.4	13.2	14.9

Finally, the researchers wanted to ascertain if online lending, a relatively new service, was used. Interestingly nearly ten percent of the respondents financed with an online vendor. Those with more than a Bachelor's degree, firms with sales in excess of $100K, professional and financial services firms, and those who had been in operation less than ten years were more likely to use this new service.

CONCLUSION

The differences in educational level for those obtaining outside financing were minimal; 88% vs. 82% between those who had at least a four year degree and those who did not. However, sales volume played a significant role in the microentrepreneurs' ability to obtain adequate financing. In fact, by a three to one ratio, which was significant at the .001 level, those with revenues greater than $100K were able to acquire needed funds. This may be due to the fact that outside lenders want collateral and these businesses may have more to put up for loans. As well, they are likely to have been in business longer, thus more easily obtaining a loan.

While half of these new firms did not borrow money from a commercial lender to start their businesses, nearly 75% employed personal credit cards, savings, and family loans for the ongoing operation of their enterprise.

Irrespective of any demographic variable, only ten percent of the respondents expressed a desire to develop greater financial skills. It is highly likely that these entrepreneurs would rather focus on their core competencies to run and develop their business instead of enhancing their financial acumen. Perhaps they are finance-phobic or they do not know enough to know what they need, thus have no interest in bettering their skills.

Even in the midst of a troubled economy over half of the firms expected their financial liabilities to remain the same over the next year. This can viewed from two perspectives; either the firms cannot expand due to lack of access to additional funds or they remain confident in their level of business operations despite the tough economy. Interestingly for these microentrepreneurs, obtaining additional capital was not viewed as playing a role either in their future success or as a challenge for their future growth.

Credit card debt remains a major way to finance microentrepreneurs' businesses (37%). This brings with it many issues: cash flow challenges, greater costs due to interest, and – possibly -- a limited ability to obtain commercial bank loans. An issue of concern is the low utilization of the SBA-guaranteed loans (8.7%). This could be due to lack of knowledge of the program, lack of access, or the procedures and regulations -- or all three.

Micro entrepreneurs choose to self finance and focus on running their business themselves. Prior research has found that small businesses have greater difficulty in finding and securing commercial loans. But, these small enterprises are at the core of business development in the United States. More focus is needed on how to sufficiently capitalize these businesses so that they have a clear chance at success. Although recently more focus on funding microenterprises has occurred, the federal, state, and local governments should focus even more on these firms.

So What

First and foremost, this study has taken the steps to examine the financing issues in the most overlooked segment of the small businesses: micro enterprises. Surprisingly, the majority of these Maryland businesses were in operation longer than ten years, no doubt serving as a major component of the economic engine for the State. This study contributes some important new understandings:

1. This research provides a beginning for understanding how the very small enterprise, specifically, funds for startup (self-finance) and for operations (credit cards and personal loans):
   a. The enterprise was the sole source of income for owners (nearly two-thirds of participants), with men more likely to have their business as the sole source of income and women using the enterprise as a source of supplemental income. Much can be done to further support women-owned businesses. Here is a big opportunity to aid the next steps of these women-owned microbusinesses so that they can grow into full-fledged, fully supportive businesses.
   b. Microbusinesses report having obtained adequate financing but nearly one-half of participants did not borrow any money to start the business. This is important information for lenders and service providers such as SCORE and regional Small Business Development Centers (SBDC) as well as

regional incubators. Adequate capitalization of the business is critical to a successful startup and ongoing growth and development of the enterprise. The study has determined the level of outside financing used by the microentrepreneur (minimal). It was not determined, however, whether there was an effort to obtain it. This is an area for future study.

c. Very few microentrepreneurs felt any interest in improving financial skills, although those less educated and with lower sales indicated a higher level of interest. This information is significant as developing high skills in financial management will only improve the profitability and efficiency of the firm. It is possible that the participants did not understand the critical importance of a good understanding of the financial management of a small business. Local service providers would certainly be interested in addressing this need with workshops and seminars.
d. Most felt that their financial liabilities would remain the same over the next year with nearly one-third optimistic about the future.
e. Very few felt that finding additional capital was related to future success.
f. A high number (over one-third) used credit cards to fund the operations followed by using savings and personal loans. This supports prior research (Harrison, et al., 2004).
g. There was almost no use of venture capital funds.
h. Online lenders were a source of capital for about ten percent of microbusinesses.

Future Research

This study looked at some key areas in microbusiness financing and funding in the State of Maryland. However, more needs to be done. Further research on outside versus inside funding needs to be done to ascertain bootstrapping methods, attitudes towards lenders, the interest in and ability to obtain loans, and whether self-funding the startup negatively impacts growth opportunities.

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