ABSTRACT
In this paper we analyse the financial search behaviour of small and medium sized enterprises (SMEs) in Sweden over a ten-year period, 1991—2000. We use a cluster analysis based on the level of control aversion that the entrepreneurs display, and arrive at a four-cluster solution. The results show that when the economy turns down, entrepreneurs are forced to be more active in searching for additional sources of finance. When the economy recovers, the control aversive entrepreneurs reduce their efforts in trying to get external financing. We can also see that SMEs in rural areas have greater difficulties in attracting external financing.

1. INTRODUCTION
The significance of small businesses to Swedish trade and industry is nowadays pretty much undisputed. A number of studies over the past 20 years have demonstrated the major role, which small businesses play in regional development and employment, as well as in technology development and the regeneration of trade and industry (Davidsson, et al., 1994; 1996). In Sweden, 99 percent of all businesses with an employee headcount of less than 50, 59 percent of turnover and 58 percent of private employees are found in the small business sector (Lundström, 2003). By way of comparison, 31 percent of turnover and 43 percent of employees are found in the small business sector in the United Kingdom (Small Business Service, 2001). A number of studies have pointed to the presence of many institutional barriers in Sweden, which create problems for the growth ambitions, and opportunities of Swedish businesses (Karlsson and Karlsson, 2002). Typically, the aggravating circumstances for small businesses, which come under focus, are the structure of the Swedish tax system, the regulations governing closed companies and the generally high levels of red tape (Braunerhjelm and Wiklund, 2006; Berggren and Silver, 2007). That the issue of the financing of small businesses is attracting attention is evidenced, in particular, by an investigation carried out in 2008 in order to improve the finance situation for Swedish businesses (The Swedish Ministry of Enterprise, Energy and Communications, 2008).

This study aims to follow small businesses in Sweden over one market cycle. Given the diverse nature of assumptions about, and attitudes towards, external finance amongst various business types, we have carried out a cluster analysis, in order to distil different types of businesses. The results of the study reveal a variety of interdependent relationships between small businesses and financiers. In the conclusions of the study, we highlight the fact that, from a policy perspective, state efforts should primarily be directed at developing knowledge companies and, in times of crisis, small manufacturing companies which are highly dependent on bank finance.
2. THEORETICAL PREMISES FOR THE FINANCING OF SMALL BUSINESSES

Over the years, financing and capital structure decisions made by businesses have been the subject of a large number of studies, from which a variety of models and theories have emerged. However, some of these models appear to be of little value in terms of explaining the financing of small businesses, because the premises on which they are based are quite far removed from the reality in which these businesses operate (Reid, 1996; Romano, et al., 2000). The common bedrock from which small business finance theories usually emerge is the agency theory (Jensen and Meckling, 1976), which postulates that information asymmetry is a problem, which needs to be addressed (Hall, et al., 2000; Schmid, 2001; Hsu, 2004). This problem arises under conditions of incomplete information when the principal providing the capital hires an agent, in this case a small business. It is compounded by the risk of moral hazard: that is, the possibility that the recipient of the capital might not act according to the financier’s intentions. This can be resolved by various methods: the majority of financiers take recourse to contracts, whereas others prefer close interaction (Mason and Harrison, 2000; Shane and Stuart, 2002; Paul, et al., 2003).

Myers (1984) launched a business finance model called the pecking order theory (POH), which posits that companies set firm priorities in terms of financing sources when financing investments. Internal finance is given preference over debts, which are, in turn, preferred to new issues (Howorth, 1999; Berggren, et al., 2000). The explanation for this is assumed to be the notion that a small business will opt for the financing solutions, which exercise the least possible influence over its fundamental strategy (Tucker and Lean, 2003). Since Myers (1984), POH has evolved, through a number of studies, including that of Howorth (1999), who developed the truncated pecking order theory. Howorth (1999) states that small businesses are compelled to truncate their order of preferences due to the demand constraints, which exist among them. Few small businesses, when seeking finance for an investment, consider new issues as an alternative, for reasons of control aversion. POH has undergone a modification, in the sense that, despite all the concerns, equity could in fact be a preferred option for small businesses which do not have access to securities or which require additional competence from outside (Cressy and Olofsson, 1997; Lindström and Olofsson, 2001; Saeetre, 2003).

A number of studies have been devoted to the analysis of the financing of small businesses on the basis of POH (Romano, et al., 2000; Paul, et al., 2007). These studies support the notion that, in the initial stage, small business start-ups use internal finance, i.e. the entrepreneur’s own resources and those obtained from family and friends. Ghosh and Cai (1999) also take the view that POH is a good model for describing the financing process of small businesses and that there are clear signs that, in the long term, businesses tend to form a capital structure which approximates the average in their respective sectors.

In recent times, state interventions have increasingly been directed towards filling the equity gap (Aernoudt, et al., 2007). The traditional term “finance gap” denotes external capital (MacMillan, 1931; Cruickshank, 2000). Studies have shown that equity presents a considerably greater problem for small businesses than debt capital (Tucker and Lean, 2003). There is a great body of literature treating the equity gap from various angles, as well as the issue of how policy to resolve this problem should be formulated (Landström, 1993; Coveney and Moore, 1998; Lumme, et al., 1998; Mason and Harrison, 2002). It has been stated that encouraging informal capital is essential, in particular, for the Swedish economy, which is characterised by relatively low wealth accretion and by the fact that a large proportion of the financiers of small businesses are banks. Business angels are characterised by less costly structures than venture capital companies, banks or state financiers (Aernoudt, et al., 2007). There is also a theory that business angels are able to act as a springboard to other types of finance, such as bank loans and venture capital, for example (Aernoudt and Erikson, 2002).

In principle, the capital, which may accrue to a company may be divided into two different types – equity and debt. However, there are a number of hybrids separating these two types, such as convertible bonds, which combine elements of both. A popular way of defining them in financial literature is to say that equity is soft, debt hard. This means that, under the terms of its contract with a debt financier, a company is required to pay charges, interest and any depreciation, regardless of the profit it generates. The relationship between the company and its owners is of a residual nature, which means that the owners divide any profit remaining after debt financiers have received their dues. Where a company fails to generate profit, the owners fail to receive any dividends.

Given that different forms of capital are considered to vary in terms of “hardness” and the requirements attached to them, it inevitably follows that they perform with varying degrees of success, depending on the stage a business has reached in its development. The traditional view holds that companies in the design or start-up phase should primarily opt for softer forms of capital, i.e. different types of contributions and equity financing. Once a business has to a certain extent stabilised its
turnover and organisation, it is then appropriate for it to develop relations with other financiers offering other forms of finance, such as debt financing from banks or, perhaps, venture capital financing from a venture capital company.

2.1 The entrepreneur’s driving force and motivation

We must consider a number of different factors in order to understand how small businesses and their management use various types of capital from various financial actors. In principle, these may be divided into three distinct types of factors: factors relating to the entrepreneur himself, those relating to the business and those connected with the business’s strategy (cf. Storey, 1996). Over the years, a number of studies have explored the driving forces behind entrepreneurship. One of the larger and more well-known entrepreneurship programmes is the Global Entrepreneurship Monitor (GEM), an international cooperation project, bringing together 50-odd countries and researchers. Annual GEM reports illuminate the varying aspects of entrepreneurship, such as financing, innovation and growth, to name but a few (Minniti, et al., 2005).

As a general rule, the driving forces behind entrepreneurship may be divided into two distinct families – opportunity-based entrepreneurship (OE) and necessity-based entrepreneurship (NE). Businesses launched for reasons of necessity, such as unemployment, tend to grow more slowly and their business concepts are characterised more by imitation than innovation (Bosma, et al., 2007). From an international perspective, we see that in Sweden relatively few businesses are launched for reasons of necessity (Delmar and Aronsson, 2000). However, there are reasons to suspect that the driving forces behind start-up businesses may vary, depending on where the economy is situated in the market cycle. In times of economic downturn, more businesses start up due to unemployment. One example of this is the start-your-own contribution administered by the Swedish Employment Agency. Equally, the number of state interventions designed to encourage new groups into entrepreneurship increase as a result of economic upswing, because there are more opportunities to raise capital for entrepreneurship and the outlets for products and services are better.

Past research has shown that there is a connection between the entrepreneur’s driving forces and his/her financing behaviour. Cressy (1995) discusses the question of what impact an entrepreneur’s vision and experience of growth has on external finance. The results of this study indicate that an entrepreneur who is motivated by growth and is de facto growing has a more open attitude to financiers and their potentially positive contributions to his/her business. A number of studies show that most businesses are started because the entrepreneur wants to be his/her own boss and avoid any external control (Amit, et al., 2001; Gelderen and Jansen, 2006). The need for autonomy has been shown to influence the entrepreneur’s choice of preferred financing solutions (Tucker and Lean, 2003; Paul, et al., 2007). This great need for autonomy, referred to as control aversion in past studies (Cressy and Olofsson, 1997) makes the entrepreneur avoid choosing external finance unless his/her business is at stake (Wiklund, 1998; Berggren, et al., 2000).

2.2 The financial life cycle – capital sources for entrepreneurship

A model, which has received great attention within marketing, product development and strategy research, is the lifecycle model (Aldrich, 1999). The basic premise of this model is that the nature of the problems which an organisation faces and must resolve will differ depending on the stage of its development (cf., Kazanjian, 1988). One area in which the lifecycle metaphor may be applied is how a business resolves its financing needs (Berger and Udell, 1998; Aldrich, 1999). Figure 1 below shows a model for the financial lifecycle of a business.

[Figure 1]

The horizontal axis is a measure of a company’s development over time. The point of origin represents the company’s start-up, and the greater the distance between the company and the origin, the more developed the company is. In this context, development can be understood as a degree of professionalisation in various aspects, such as economy, marketing, management and organisation, to name but a few. On the vertical axis we have the appropriate category, i.e. the degree of formalisation in relation to the financier. At the initial point of origin this relationship is quite informal, but the greater the distance between the company and this reference point, the more formalised their relationship to the financier. The extreme case is the relationship between a market-quoted company and its owners, i.e. the shareholders.

The most important and common source of capital for businesses in the start-up stage is the capital saved by the entrepreneur (Berger and Udell, 1998; Winborg and Landström, 2001). How far the entrepreneur’s own resources will extend depends on the type of business he/she is starting and
his/her growth ambitions. Family and friends also appear to play an important role as regards capital in the start-up stage. More often than not, this type of finance takes the form of short-term loans. The importance of finance obtained from family and friends diminishes as the company becomes more established in the market and gains access to other sources of capital, such as bank loans (Hussain and Matlay, 2007). Past studies have shown that a common feature of businesses started by ethnic minorities is the high proportion of finance obtained from their own communities (Bates, 1997).

Over time, a whole host of non-profit and public initiatives have emerged which aim to match the more or less clearly defined capital demand of small businesses. In the past, Nutek used to be a major actor in the seed finance market, that is to say, in the financing of the project stage. Today, Innovationsbroarna has taken over this role to some extent, which is able to assist businesses in the early stage of development with contributions and consultancy. Almi Företagspartner is another public actor whose purpose is to provide assistance for growth to entrepreneurs, through various types of loans and consultancy. In recent years, Almi has also become involved in extending what are called microloans, i.e. minor loans to new businesses. Microloans have been granted, to a large extent, to groups which some studies have highlighted as having been disadvantaged by existing financial actors (Renståg, 2006).

Informal venture capital is capital, which private individuals invest, in unquoted companies. This group of informal investors have received a great deal of attention and are popularly known as business or corporate angels (Avdieitchikova, et al., 2006). Business angels often come from a background within the same industry as that of the companies in which they invest and are considered to be in a position to contribute positively to the development of those companies, by dint of their experience and networks (Lindström and Ololsson, 2001; Madill, et al., 2005). In Sweden, we have, in recent years, witnessed an increasing formalisation and professionalisation of the business angel market, whereby business angels form networks and make joint investments. On account of this trend, certain formalised business angel networks now resemble formal venture capital companies in many respects.

The formal venture capital market is composed of venture capital companies. These specialised financiers invest capital, which they manage on behalf of large financial actors, such as banks, insurance companies and pension funds (Sahlman, 1990). Venture capital companies can contribute to the business development of portfolio companies in various ways (Robbie, et al., 1997). In Sweden today, there are just over 100 active venture capital companies which make investments in developmental stages and sectors. If we consider this trend over an extended period of time, we see signs that investments are being made increasingly late in portfolio companies’ development stage (Isaksson, 2006). Swedish venture capital companies are mainly confined to large urban areas, particularly Stockholm, so it is primarily in these areas that they invest. This is not specifically a Swedish phenomenon, because centralised financial markets may also be found in the UK, with London as a hub (Klagge and Martin, 2005).

Together with Japan and Germany, Sweden belongs to a group of countries which are usually described as bank-oriented. This means that business banks are responsible for a relatively large part of the financing of entrepreneurship (Larsson and Sjögren, 1995; Scholtens, 1999). With regard to bank loans extended to small businesses, we have seen over the past few years an increasingly noticeable trend towards, for instance, object financing, factoring and leasing. The explanation for this lies partly in the legislation amendments that have affected banks’ pre-emption rights (Silver, 2005).

By way of conclusion, we may observe that it has become easier to quote companies in one of many official lists of the Stockholm Stock Exchange. Securing a quote on the stock exchange has become a prominent objective of many entrepreneurs and this type of exit has historically generated the largest profits for venture capital companies. In a certain sense, a quote on a stock exchange also makes sure that a business gains access to “permanent finance”, because then it can issue new shares as and when required.

One problem inherent in treating the financial lifecycle, as a phenomenon common to all small businesses is that there are, in practice, different types of financial lifecycles, depending on the industry. For the majority of manufacturing companies, bank financing accounts form a significant portion of the finance between the start-up stage and the ripe stage. For professional services companies, bank financing is less important, whereas for fast-growing knowledge companies, alternative financiers, such as venture capital companies and business angels, are more important. We should take particular account of the fact that knowledge companies experience two obvious equity gaps: one which extends from the point of an entrepreneur’s first financing through his/her own resources, family and friends to the contribution made by business angels, and the other which extends between business angels and formal venture capital. In theory, business angels and formal venture capital form a continuous finance ring, but they exhibit major differences in practice, both in terms of
investment behaviour and the choice of investment object (Mason and Harrison, 2000). A number of studies show that business angels make substantially larger investments, in fact, between three and thirteen times larger, than formal venture capital, in the early stages of a business’s development (Gaston, 1989; Mason and Harrison, 2000; Reynolds, et al., 2002; Aernoudt and Erikson, 2002).

2.3 Susceptibility of financing capital to market cycles
Capital market is a generic term for the capital lending market and the equity stock market and is, like most other markets, susceptible to cyclical fluctuations. Many indicators, however, such as GNP, suggest that the capital market is subject to greater booms and busts. At the time of writing of this study, the financial turmoil arising from the US housing market crisis appeared to be the potential corrective to both sections of the capital market.

In addition to internal profits, bank loans are the most important source of capital for small and medium-sized Swedish enterprises. Bank finance is of primary importance to businesses operating in the manufacturing industry, where there is a great demand for investment in machinery and other equipment (Johnsen and McMahon, 2005). By way of comparison with other sections of the capital market, the banking market appears to be relatively stable, as its lending volumes have remained relatively stable over time. In the wake of the banking crisis in the early 1990s, considerable constraints were imposed on credit lending, which could now be perceived as relatively rare (Larsson and Sjögren, 1995).

The formal venture capital market, which includes various types of venture capital companies, is one of those sections of the capital market that are most susceptible to cyclical fluctuations (Gompers and Lerner, 2001). In times of prosperity, when venture capital companies, i.e. banks, insurance companies and pension funds, have plenty of capital which they need to invest, they are very active and invest in portfolio companies which are at varying stages of development. When the market collapses, venture capital markets tend to exercise great caution, as was, for example, the case after the major stock market decline at the beginning of the 21st century. Activity levels in the venture capital market are very dependent on stock market trends, because the purpose of investing in portfolio companies is to ensure that they are quoted on one of the world’s stock markets. When stock markets suffer a downturn, venture capital companies find it difficult to secure market disposal for their investments, which results in great hesitancy to invest capital in new portfolio companies, as these investments are very non-liquid.

The informal venture capital market, which primarily concerns investments made by business angels, is also affected by market fluctuations. When business angels invest their resources, they are less dependent on access to resources held by institutional investors. Business angels are, however, indirectly dependent on access to formal venture capital when they function as the next step in the financial lifecycle of a portfolio company (Sörheim, 2005). It may also be justifiably presumed that business angels’ investment frequency is connected with developments in property prices, as past studies have shown that the majority of business angels invest part of their wealth in property. A property price crash, which is often an attendant phenomenon of economic downturn, diminishes interest in investment in small businesses.

3. A DESCRIPTION OF THE EMPIRICAL MATERIAL
The empirical material in this chapter consists of three large survey studies examining the same population of businesses. The survey questionnaire used in the studies has undergone only minor amendments, which has given us an opportunity to reflect on how businesses have been affected on various occasions by changes in their surrounding circumstances. In all our examinations we have used a stratified selection, whereby the selection framework consisted of manufacturing companies and professional services companies affiliated with this industry. Furthermore, the selection is based on three company size categories, 5-19, 20-49 and 50-199 employees, with an equal number of respondents in each size category.

The first survey study was carried out in the wake of the deep banking and property crisis at the beginning of the 1990s, in the autumn of 1993, to be precise. As a result of the crisis, most Swedish business banks tightened their credit lending, and this phenomenon may be observed among the businesses included in the study. The majority of businesses found themselves caught in the ensuing rift between a finance sector that was imposing strict requirements on finance and their own problems in securing market disposal for their products. Growth among the businesses included in the study is modest and, in fact, many of them are getting smaller, both in terms of turnover and staff numbers. The results of this study are featured in their entirety in Olofsson (1994).

The second study was carried out in November 1997, during which time most of the businesses experienced rapid growth, thanks to the economic upswing. Most businesses had few problems
attracting finance from external sources, of which by this time there were plenty. The importance of 
bank finance diminished considerably as a result of the fact that the businesses generated sound profits 
and that there were more financing alternatives on the market. The expansion of the professional 
venture capital sector was of major significance to many of the businesses included in the study. The 
interested reader will find the results of the entire study in Olofsson and Berggren (1998).

The final survey study was carried out during the overheated boom of April 2000. The rapid 
expansion created by most of the businesses was also the catalyst of certain problems, because they 
had to rely on larger loans in order to meet their demand for operating capital, which is a natural 
consequence of growth. Both business angels and venture capital companies had by that time become 
well-established institutions and were responsible for financing the majority of needs of the business 
included in the study. For a more in-depth account of the study, please see Berggren (2002).

The response frequency dropped over time, which may be ascribed to a number of reasons. In 
the first study, response frequency was 55.9 percent, in the second 51.2 percent, and in the third, the 
number of respondents fell to 44.8 percent. The dropout analyses, which the authors carried out in 
2000 recorded general “survey fatigue” as an explanation of why the businesses failed to reply to the 
surveys sent out to them. A pertinent question to ask in this context is to what extent the attitudes and 
situation of the respondents correspond to that of the underlying population. In the dropout analyses 
that we carried out, we compared respondents with non-respondents on the basis of several variables, 
which were made available to us by Statistics Sweden. These include: employee headcount, industry, 
domicile and turnover. In addition, we followed up the non-respondents via e-mail and telephone. Our 
alyses produced no statistical differences between the respondents and the non-respondents. For this 
reason, we believe that the empirical material, which we collected portrays a true picture of the 
surveyed population, or, in other words, manufacturing companies and professional services 
companies affiliated with this industry with an employee headcount of 5-199.

3.1. A cluster analysis of the businesses included in the study
The purpose of a cluster analysis is to identify groups of businesses within a population which are 
homogenous in terms of certain characteristics, whilst allowing for their distinct character in relation to 
other business groups (Sharma, 1996). Precisely what is meant by the words “homogenous” and 
“distinct” depends on what the objective of the study is. In this study we were interested in the 
question of what impact the entrepreneurs’ entrepreneurial motivation had on their choice of form of 
finance, and more specifically what the profile of control aversion was in the different groups of 
businesses.

Our first step in the cluster analysis was to use the hierarchical clustering method, because our analysis 
was explorative. When we used the Wards method, the result was a four-cluster model in all the three 
survey studies. The program we used was SPSS, version 14.0 for Windows.

In order to capture the theoretical concept “control aversion”, we used two different variables. 
The first of these was the statement “New shareholders are good for the development of small and 
medium-sized enterprises”. The respondents were asked to take a stance on the statement on a scale of 
1 to 5, ranging from “disagree entirely” to “agree entirely”. The second variable was the statement “It 
is better to sell the whole company than to allow new shareholders in.” Just as in the preceding case, 
the respondents were asked to take a stance on the statement on a scale of 1 to 5. We should also add 
that in the 2000 study we used a scale of 1 to 7 and that the second question was reformulated to read 
“Borrowing is a better alternative than allowing new shareholders in.”

4. AN ANALYSIS OF THE FINANCING OF SMALL BUSINESSES
The four clusters identified in the cluster analysis by the degree of control aversion evidenced by the 
entrepreneurs show distinctly different characteristics in a number of respects. For the purposes of the 
following analysis, we have decided to name the four clusters as follows:

1. Growth-oriented professional services companies in large urban areas
2. Large, prosperous manufacturing companies
3. Small, solid businesses
4. Family-controlled manufacturing businesses in small towns

The period over which these businesses were studied was greatly affected by the banking crisis, the 
subsequent recovery thereof and the economic upswing at the end of the 1990s.

4.1 Growth-oriented professional services companies in large urban areas
In all three studies, cluster 1 constitutes the largest cluster in terms of the number of businesses it 
comprises. In addition, the businesses included in this cluster have established their operations in large 
Swedish cities, such as Stockholm and Gothenburg, to a much greater extent than businesses in the
other clusters. As the heading of this section indicates, this cluster is dominated by businesses operating in the professional services sector, which is another determinant that distinguishes these businesses from those included in the other clusters. It should also be noted that the actual growth rate among this cluster’s businesses is clearly higher than that of the businesses in the other clusters.

The financing behaviour in this cluster is the diametric opposite of that in the other clusters especially cluster 4. The businesses in this cluster have little in the way of control aversion, i.e. they are of the opinion that new shareholders are a positive factor for the development of small and medium-sized enterprises. There are a number of explanations for these low control aversion levels. One is that the growth rate does not accommodate organic growth, but rather entails heavy dependency on a continuous provision of capital. Another is that these businesses operate in an industry where the admission of new shareholders is common and where collateral for bank loans is weak. In all three studies, businesses seeking new shareholders accounted for more than a third of the businesses in this cluster. These directed their interest toward different types of professional actors, such as venture capital companies and corporate angels, to a greater extent than businesses in the other clusters. They also displayed a relatively high ability to attract new shareholders. In the first study from 1994, new shareholders were admitted to nearly half of the businesses, despite the fact that a “mere” 37 percent of the businesses had actively sought new shareholders. This shows that the search was conducted in two directions. The results of the businesses’ efforts to recruit new shareholders are also evident in the ownership structure of the cluster. The ownership structure of the vast majority of the businesses is spread out, which further exemplifies the relatively positive view these businesses hold of the possibilities of external partners making a positive contribution to business development in small businesses.

For banks, the combination of strong growth and service-producing companies is traditionally a deterrent to provision of finance. It may be observed that the businesses in this cluster make use of bank loans to a relatively limited extent compared to equity financing. A contributing factor to their somewhat lukewarm interest in bank financing may also be linked to the fact that the businesses in this cluster exhibited the least solidity of the businesses in the studies. On the other hand, however, there appears to be considerable satisfaction with the advice and support, which the businesses received from their bank contacts. As regards the search for other sources of capital, such as loans from Almi, Nutek and Industrifonden, the businesses in this cluster came top in all three studies. Only a minority of these businesses sought no external finance at all.

4.2 Large prosperous manufacturing companies
The businesses in cluster 2 constitute an interesting group, for a number of reasons. This cluster is dominated by manufacturing companies which have attained a certain size and are, in plain geographical terms, spread across the entire country, albeit with a slight gravitational pull towards bigger towns, commonly called regional centres. The growth rate among these businesses and their attitudes to growth and to the question of what contribution new shareholders might make to their overall development are relatively positive. At the same time, however, there is very little in the way of willingness to admit new shareholders within their ranks, which, in other words, points to a clearly ambivalent attitude to new ownership partners. In all three studies, the financial status of the businesses included in this cluster, here measured as solidity, was relatively weak compared to the other businesses studied.

Over the course of the 10-year period being examined, in terms of admitting new shareholders, financing behaviour was most intensive amongst this group of businesses. There is an inclination towards industrial partners, that is, businesses operating within the same or affiliated industries. It may also be ascertained that in those cases where the businesses did not seek industrial partners, it was primarily because corporate angels were wooing the business. None of the businesses made any attempt to secure financing from venture capital companies. The ownership structure of these businesses is different from that of those included in cluster 1, because the business management and their family are, to a greater extent, the dominant owners. It is interesting to note that, despite the relatively intense efforts on the part of these businesses to find new shareholders, they have found it relatively difficult to do so, particularly during the deep economic downturn in the early 1990s.

Bank financing is an important factor for the businesses included in this cluster. Viewed over an extended period of time, the level of bank financing has increased, rather than decreased. Given that this cluster encompasses relatively large and growing manufacturing companies, this seems to be a natural development, particularly in view of the fact that these businesses have found it difficult to attract new shareholders. At the same time, despite the fact that the businesses in this cluster are so dependent on bank financing, or perhaps because of it, they are also the most vocal critics of banks’ contributions to their business development. This also concerns the banks’ requirements on surety and
collateral for the loans they grant to the businesses. In addition, it may be noted that the businesses in this cluster have become more active over time in seeking finance from other sources, such as Almi, Nutek and Industrifonden. In the early 1990s, they were not particularly active, but during the economic upswing at the end of that decade, they were more active in finding alternative sources of capital.

[Table 1]

4.3 Small and solid businesses
One common feature of the businesses in this cluster is that, while they take the view that new shareholders cannot make any positive contribution to the business, at the same time they would prefer to acquire new shareholders than be forced to sell their business. In other words, their attitude is the opposite of that of the businesses included in cluster 2. The businesses in this cluster are represented by a combination of manufacturing companies and professional services companies. Of all three studies, this cluster also contains the smallest businesses, in terms of turnover and employee headcount. In terms of their geographical distribution, they gravitate towards small towns outside large metropolitan areas and regional centres. Growth among businesses in this cluster is close to the average for all the businesses encompassed by the studies. However, their solidity levels were right at the top of the scale and this applies to the entire 10-year period under examination. Growth orientation among these businesses is the lowest of the businesses encompassed by all three studies.

If we take into account the entire period, the businesses included in this cluster were relatively successful in attracting new shareholders in order to develop their businesses. On the other hand, this cluster did not exhibit as much intensity and engagement as clusters 1 and 2 described above. Above all, they appear to have been very active in the early 1990s, but when the market turned upward, they reduced their activity levels appreciably. In other words, there are signs suggesting that actions taken by a business are governed by compelling mechanisms. The types of shareholder, which this cluster sought were primarily industrial partners, but they also approached business angels and a couple of venture capital companies. The feature that distinguishes the businesses in this cluster from the other clusters is the fact that their demand for bank finance is fairly low. This, in itself, may seem counter-intuitive because a relatively large number of businesses in the cluster are from the manufacturing sector and they tend to operate in small communities. A possible explanation for this could be that they have achieved balanced growth, whereby their internal resources finance growth. Furthermore, these businesses are not particularly active in seeking other sources of financing, because in this cluster we see levels falling significantly below all the other clusters. A sensible hypothesis might be that the demand for external finance in cluster 3 is very limited.

4.4 Family-controlled manufacturing businesses in small towns
The businesses in this cluster are the most control-averse of all those encompassed by the studies. They are of the opinion that new shareholders are a positive for the business’s development, but at the same time they would prefer to sell the entire business rather than allow new shareholders in. This has been their consistent attitude. Manufacturing companies dominate the cluster and their actual growth is clearly the lowest, if viewed across all four clusters. In terms of geographical distribution, these businesses are situated across the country and tend to gravitate toward small towns outside large urban areas. Several businesses are situated in small towns, especially in the inner parts of Norrland. The solidity of these businesses is definitely the best of the businesses encompassed by all three studies.

On the whole, the businesses in this cluster tend to practise what they preach, because the intensity of their financing behaviour is fairly low, the lowest, in fact, of all the clusters. The actors to whom they turn as a first recourse are industrial partners, corporate angels and their own employees. Just as was the case with the businesses in cluster 3, it appears that the businesses in this cluster were more active during the period, because they were compelled out into the market in order to seek capital. When the market cycle improves, it appears that these businesses are more restrained in seeking new shareholders. The management and their family largely control the businesses.

The businesses in this cluster are highly dependent on bank financing for their operations. The importance of bank loans is highest in this cluster and the businesses had an evidently positive attitude to the financial competence contributed by the bank. At the same time, however, the businesses were negatively inclined towards the bank’s thinking on security. As regards other sources of capital, the businesses in this cluster were relatively active in seeking different types of financing, principally from Almi and other state organisations.
5. DISCUSSION

The results of the studies point to a whole set of differences between the different clusters. These differences may provide an indication of how businesses in different clusters should be treated, from a policy perspective. Cluster 1 is characterised by businesses with high technology content, which are highly dependent on external finance. These types of businesses do not have the advantage of being able to choose their financiers, but are prepared both to acquire bank finance and to admit various types of financiers to their equity. The businesses in this cluster do not change their financing behaviour between market cycles, but have a constant demand for fresh capital. On the other hand, a period of economic downturn is conducive to impeding growth when access to both finance and the market shrinks.

Cluster 2 may be said to tolerate the market cycle well over time. This is a type of business which does not generally change its financing behaviour, either, but rather adapts to the market situation. We can ascertain that the period following the economic downturn was somewhat troubling for these businesses, but we should also add that the economic upswing boosted the stability of the businesses in this cluster. Cluster 3 consists of businesses, which do not exhibit great demand for external finance over time. The fact is that these businesses are so independent from external finance that there is little interest in this field. Nor do they exhibit high control aversion. On the other hand, cluster 4 is dependent on banks, in particular. They have a high level of control aversion, which means that bank financing becomes the logical alternative. During the banking crisis, this business group came a cropper when the banks rationed loans primarily to less solid businesses, which is a hallmark of this group.

6. CONCLUSIONS

The cluster analysis of businesses included in this study provides a few indicators of which businesses would be interesting to support at different stages. The comparison table shows that clusters 1 and 4 are of primary interest. Cluster 1, which consists of fast-growing professional services companies, is responsible for introducing innovations in many markets, but presents a problem, in that this type of business is characterised by a clear equity gap and a greater difficulty in attracting finance from banks. Business angels present a possibility for financing this type of business, but investment levels for business angels are lower than in the US economy, for example, and many entrepreneurs do not know how to secure this type of finance (Aernoudt, et al., 2007). Furthermore, there is an obvious European dilemma involved, in that not enough capital is available for this type of business (Mason and Harrison, 2002). In Europe, there are a number of non-activated virgin angels, that is, potential investors who do not have sufficient numbers of contacts or sufficient knowledge in order to create a successful future for themselves as business angels (Mason and Harrison, 2002; San José, et al., 2005; Aernoudt, et al., 2007). In order to tackle this problem, many countries have launched initiatives, such as business angel academies or a business angel network, whose aim is to expand knowledge, specifically amongst new business angels. One explanation for the notion that new business angels should be given support is that they might otherwise run the risk of failure when making investments and one or two such failures might then compel them to withdraw from the market. The term “investment readiness” has emerged in the past few years as one of the most important components of policy discussions in Europe (European Commission, 2007). The purpose of investment readiness is to prepare entrepreneurs to meet financiers, by asking them, for instance, to draw up business plans. Investment readiness plays a twofold role, in that it ensures entrepreneurs increase their knowledge of their own business and that investors are provided with a better basis for assessment.

Cluster 4 is interesting, in particular, because of the job opportunities that are available in these businesses. This cluster is comprised of businesses, which are dependent on bank financing. One obvious result of the banking crisis in the early 1990s was that many businesses ran into difficulties with their bank financing when the banks tightened their lending criteria across the board. It was primarily businesses in cluster 4 which bore the brunt of the indirect effects of the housing crisis when it severed their loan lifeline. The effect of an economic downturn may be observed in the fact that the businesses in cluster 4 sought to attract external shareholders during this period, despite their general reluctance to relinquish control. It may be advisable to analyse how a similar situation might be avoided prior to any future crises. As a general rule, the businesses in cluster 4 are dependent on banking capital and, to a lesser extent, on state initiatives for their external financing, as they do not offer the growth potential required to attract venture capital. It should be noted that the businesses in
this cluster are in a weak financial position during banking crises, but that, otherwise, when opportunity permits, they are able to maintain a high level of financial stability. This may be interpreted as meaning that these businesses are more prone to running into difficulties at times of general financial crises.

Clusters 2 and 3 present relatively few problems, from a social perspective. The somewhat larger businesses covered by cluster 2 are, generally speaking, in a better financing situation, as they have an entire range of financing forms at their disposal, such as bank capital, business angel capital and formal venture capital, as well as recourse to state financing via Industrifonden, for example. It is interesting to note that, as a general rule, venture capital companies are investing in increasingly larger facilities and at later stages (Aernoudt and Erikson, 2002; Aernoudt, 2005). For this reason, venture capital companies are increasingly less prepared to take high risks, a phenomenon, which has been described as “taking the venture out of venture capital” (Bygrave and Timmons 1992). On the basis of the financing lifecycle, which was discussed above, we may conclude that increasing quantities of capital are accumulated for the later stages, which, in its own right, means that societal efforts in this field should be directed at the early stages of business development.

Cluster 3 is a prosperous cluster, insofar as it brings together businesses whose demands for external finance are not particularly great and which demonstrate high financial robustness in critical situations. The businesses included in this cluster do not vary appreciably over time, but rather manage to preserve their financial stability, regardless of the market cycle.

By way of a brief conclusion, we wish to reiterate the critical importance of focusing primarily on knowledge companies exhibiting growth during market cycles, by measures including those that stimulate business angel investment, such as business angel academies, a business angel network and investment readiness. In addition, focus should also be placed on small manufacturing companies struggling in financial crises.

7. REFERENCES
Berggren, B. and Silver, L. (2007), The impact of legislation on the possibilities of small businesses to secure finance, Stockholm: KTH.


Silver, L. (2005), “An assessment of the effects of the pre-emption rights reform, as seen from a credit assessment perspective”, Baseline report for ITPS’s examination of the pre-emption right, Östersund: ITPS.


8. FIGURES AND TABLES

Figure 1. The financial lifecycle

- The entrepreneur’s own resources, family and friends
- Public financiers, business angels
- Venture capital company
- Bank financing
- Stock market quote

Start-up phase  Expansion phase  Maturation phase
Table 1. Percentage of the cluster businesses which searched for new shareholders, in the three studies from 1994, 1997 and 2000.

Table 2. Percentage of the cluster businesses which got new shareholders, in the three studies from 1994, 1997 and 2000.
Table 3. A comparison of some characteristics of the businesses included in the investigations from 1994, 1997 and 2000.

<table>
<thead>
<tr>
<th></th>
<th>Cluster I</th>
<th>Cluster II</th>
<th>Cluster III</th>
<th>Cluster IV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level of intensity in seeking new shareholders</strong></td>
<td>High (H-H-H)</td>
<td>Medium (M-H-M)</td>
<td>Low (M-L-L)</td>
<td>Low (M-L-L)</td>
</tr>
<tr>
<td><strong>Importance of bank financing</strong></td>
<td>Medium (M-H-M)</td>
<td>Medium (M-M-H)</td>
<td>Low (L-L-L)</td>
<td>High (H-H-H)</td>
</tr>
<tr>
<td><strong>Level of intensity in seeking different types of loans</strong></td>
<td>High (H-H)</td>
<td>Medium (L-M)</td>
<td>Low (M-L)</td>
<td>Medium (M-M)</td>
</tr>
<tr>
<td><strong>Level of the entrepreneur’s control aversion</strong></td>
<td>Low (L-L-L)</td>
<td>Medium (M-M-M)</td>
<td>Medium (M-M-M)</td>
<td>High (H-H-H)</td>
</tr>
<tr>
<td><strong>Business’s financial stability</strong></td>
<td>Medium (M-M-M)</td>
<td>Medium (M-L-M)</td>
<td>High (H-H-H)</td>
<td>High (L-H-H)</td>
</tr>
<tr>
<td><strong>Business’s actual growth</strong></td>
<td>High (L-H-H)</td>
<td>Medium (L-M-H)</td>
<td>Medium (L-M-M)</td>
<td>Low (L-L-M)</td>
</tr>
</tbody>
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