Foreword

David J. Storey

I am delighted to have been asked to contribute the Foreword to this book for three interconnected reasons. The first is because concerns over entrepreneurial finance are long-standing. They have been acknowledged, at least in the UK, since the last truly global recession of the 1930s, when the MacMillan Committee, reporting in 1931 (para 404) described:

> The great difficulty experienced by smaller and medium-sized business in raising the capital which they may from time to time require.

The fact that almost the same phrasing could be used 85 years later points to the continuing importance of the topic and our inability to solve the problem even when macro-economic conditions are benign.

It might seem self-evident that access to finance is critical to the success of new and small firms, but much of the current entrepreneurship literature could lead the unwary reader to assume the key to entrepreneurial success is the individual. By focussing so heavily upon their talent to identify and exploit opportunities the risk is that the key enabling role of finance is underplayed. This is a mistake since the key role of the financial sector in any economy is to support those entrepreneurs with talent and to avoid funding those without. But funding the good, and rejecting the bad, is considerably trickier than this simple statement implies. The core problem is that the small firm marketplace is one where information is difficult to acquire. To help assess the financial viability of public companies or governments there is an army of analysts, brokers and financial journalists whose task is to examine both public and private information relating to factors influencing performance. No such information is available about the hairdresser or window-cleaner who is about to start in business for the first time. If the individual has a bank account then their bank may be able to reach a judgement on whether they seem to be trustworthy and competent in their private financial management – but this will be only an imperfect guide as to how they will perform as a business owner. The challenge facing every government is to create a financial system which incentivizes the providers of finance to collect sufficient information to enable it to deliver the appropriate financial package to its customers.

The second reason why these essays are important is that these issues, albeit in different ways, are found in countries with very different levels of economic development. The Editors emphasize that a novelty of the book is the diversity of countries examined – from high income countries such as the US, Canada and the UK at one extreme to Pakistan and Kazakhstan at the other. Most helpfully, in their Introduction, they provide a table that captures that diversity – and one that should be mandatory in all editorial volumes!

The third focus that makes this book 'special' is the Global Financial Crisis. It is unlikely to be a coincidence that the access to finance for new and small firms becomes a matter of political concern during times of economic crisis. In part this is because denying such firms access to finance leads to business closures, unemployment and a loss of output in the economy. It also means that such firms will find it more difficult to lead the economy out of recession. And while that is true it remains the case that, even in developed economies, the SME finance market remains opaque.

The policy lesson, it seems to me, that emerges from these chapters is that the financial marketplaces where new and small firms thrive are the ones where the sources of finance are as diverse as the new and small firms themselves. Diversity is to be welcomed. These sources of finance have to include venture capital for the tiny proportion of technology-based firms that are found, even in developed countries. But for every technology-based venture there are thousands of new and small firms requiring more mundane sources to facilitate their cashflow and so give them a chance to survive. Factoring, invoice discounting, trade credit appear to be currently of less interest to the research community than, for example, crowdfunding, but they are critical to oiling the wheels of a financial system in which new and small firms can prosper. My casual observation is that diversity and choice characterize a well-functioning financial system and that diversity is well captured in these readings.

David J. Storey
Professor of Enterprise, University of Sussex