

# Raising Capital

*Fifty-seven percent of nonmetro manufacturers reported a major expansion or modernization during 1992-1995, with nearly two-thirds of those companies using funds borrowed from a bank or savings and loan. Capital seems to be equally available for both metro and nonmetro manufacturers.*

## Financing Capital Improvements

About three out of four nonmetro manufacturing establishments had a business or financial plan, slightly less than the proportion of metro establishments (table 17). About half of those who had a plan reported using outside experts to develop it. For plants that are part of multiunit firms, the most important source of expertise was "other locations" (headquarters, for example), used by two-thirds of multiunit respondents (table 18). After

"other locations," banks or other financial institutions and private or nonprofit corporations were the most important sources, identified as "very important" by one in five nonmetro respondents. Respondents apparently did not rely heavily on any other particular source of expertise. For each of the other six sources of expertise they were asked about, most nonmetro respondents said they were "not important." Nonmetro establishments were less likely than metro establishments to use assistance from banks, private companies, or nonprof-

**Table 17—Financing of capital investments by manufacturing businesses**

Factor	Nonmetro	Metro
	<i>Percent</i>	
Establishment has a business or financial plan	76*	79*
Used outside experts when developing plan <sup>1</sup>	49*	46*
Planned or initiated major expansion or modernization in the last 3 years	57*	53*
Capital improvement plans were curtailed <sup>2</sup>	16	16
Used internal sources of financing: <sup>2</sup>		
Retained earnings were used	63	67
Financing was obtained from elsewhere in the firm <sup>3</sup>	57	55
Borrowed funds were used <sup>2</sup>	67	65
Percentage of borrowed funds long-term (over 3 years)	69	69
Borrowed funds were acquired from: <sup>4</sup>		
Financial firm (bank, savings and loan)	93	90
Individuals and families	21	25
Other firms (such as insurance company)	4	4
Issued bonds	4	3
New equity investments were used <sup>2</sup>	10*	13*
A government program had a role in financing capital improvements <sup>2</sup>	18*	15*

\* = Significant difference between nonmetro and metro responses at the 0.05 level.

<sup>1</sup>Applies only to those having a financial plan. N=1,536 nonmetro, 820 metro.

<sup>2</sup>Applies only to those that planned expansion/modernization. N=1,515 nonmetro, 552 metro.

<sup>3</sup>Multiunit firms that planned an expansion/modernization only. N=630 nonmetro, 189 metro.

<sup>4</sup>Applies only to those that used borrowed funds to finance expansion/modernization. N=948 nonmetro, 342 metro.

Percentage of respondents who reported using source are reported.

Source: ERS Rural Manufacturing Survey, 1996.

its, but they were more likely to use assistance from public or university programs.

Fifty-seven percent of nonmetro respondents reported having planned or initiated a major expansion or modernization in the previous 3 years, a slightly higher share than the 53 percent of metro establishments (table 17). Improving quality control was the most important reason for undertaking an expansion or modernization (table 19); 80 percent of respondents cited improved quality control either "somewhat important" or "very important." That was followed by expansion of production capacity and changes in the product line. Replacement of old or damaged equipment and technology adoption were cited less frequently. Respondents cited compliance with new regulations the least frequently of the six reasons listed in the questionnaire, but nearly a fifth of plants said compliance

was a "very important" reason for their expansion or modernization. While nonmetro and metro plants noted similar reasons for capital improvements, metro plants were more likely to report expansion of production capacity as "very important."

Most respondents who had made capital improvements reported having used at least some internally generated funds to finance their expansions or modernizations (table 17). Sixty-three percent of nonmetro respondents reported using retained earnings, and 57 percent of those in multiunit firms used financing from elsewhere in their firm. Two out of three reported using borrowed funds, and 69 percent of those respondents used long-term debt. Over 90 percent reported borrowing from a bank or savings and loan and about 20 percent reported borrowing from individuals or families. Few respondents reported issuing bonds or borrowing from other

**Table 18—Sources of outside expertise used in developing business or financial plans by manufacturing establishments**

Source of expertise	Nonmetro		Metro	
	Very important	Somewhat important	Very important	Somewhat important
	<i>Percent</i>			
Other locations of the firm <sup>1</sup>	66	21	69	18
Bank or other financial institution	20*	29*	21*	35*
Private or nonprofit corporation	20*	26*	26*	30*
Partners	16	17	17	17
Competitors	11	31	8	29
State or national industry association	6	25	5	23
Public, college, or university programs	6*	20*	4*	12*

\* = Significant difference between nonmetro and metro responses at the 0.05 level.

"Not Important" responses are not shown.

<sup>1</sup>Includes only establishments in multiunit firms.

Includes only establishments reporting using assistance to develop a business or financial plan.

N=999 nonmetro, 378 metro.

Source: ERS Rural Manufacturing Survey, 1996.

firms. Only 10 percent of nonmetro respondents created new equity investments (such as stocks) to raise capital, and 18 percent said that a government program had some role in financing their investment. Metro and nonmetro respondents' sources of financing were similar, except that nonmetro establishments were more likely to use government programs to obtain financing and less likely to use new equity investments.

Financing problems did not affect capital investment plans for most respondents. Of those who reported having undergone an expansion or modernization, only 16 percent of both metro and nonmetro respondents reported that problems caused them to curtail their plans for capital improvements (table 17). Of the four problems asked about, "uncertain or changing product

market situation" was cited as a major problem most often (table 20). "Difficulty arranging outside financing" was a major problem for 11 percent of both metro and nonmetro respondents, and was the second leading major problem overall. However, it was cited less often as a minor problem. A significant minority of firms seemed to have difficulty acquiring financing, but this did not seem to be a problem for most manufacturing plants. The similarity of the metro and nonmetro responses suggests that capital is equally available to metro and nonmetro manufacturing establishments.<sup>7</sup>

<sup>7</sup>Milkove, McGranahan, and Sullivan (forthcoming) and Gale (1998b) provide more detailed analysis of finance and capital issues.

**Table 19—Reasons for investing in capital improvements by manufacturing establishments**

Reason for investment	Nonmetro		Metro	
	Very important	Somewhat important	Very important	Somewhat important
	<i>Percent</i>			
Improve quality control	47	34	46	35
Expand production capacity	79	16	77	16
Change or add to the product line	45	27	46	29
Replace old or damaged equipment	38	28	36	30
Adopt new technology or management practice	35	32	38	31
Comply with new regulations	19	27	18	26

\* = Significant difference between nonmetro and metro responses at the 0.05 level. "Not important" responses are not shown. Includes only establishments reporting a major expansion or modernization within the past 3 years. N=1,534 nonmetro, 558 metro.

**Table 20—Problems encountered in carrying out capital investment plans by manufacturing businesses**

Problems	Nonmetro		Metro	
	Very important	Somewhat important	Very important	Somewhat important
	<i>Percent</i>			
Uncertain or changing product market situation	12	38	15	33
Difficulty arranging outside financing	11	28	11	25
Difficulty acquiring support from headquarters <sup>1</sup>	9*	46*	8*	29*
Underestimated financial costs	8	35	7	34

\* = Significant difference between nonmetro and metro responses at the 0.05 level. "Not important" responses are not shown. Includes only establishments reporting a major expansion or modernization within the past 3 years. N=1,512 nonmetro, 551 metro.

<sup>1</sup>Includes only establishments in multiunit firms.  
Source: ERS Rural Manufacturing Survey, 1996.

## Locally Available Expertise and Capital

One of the disadvantages of rural business locations is lack of contact with other businesses and lack of access to information and expertise in relatively remote rural areas. The survey asked respondents to state what part of financing, worker training, financial planning, technical and marketing assistance was obtained in their local area, defined as "within a 1-hour drive." As expected, nonmetro establishments reported obtaining a lower proportion of assistance and expertise locally than did metro establishments, but the nonmetro-metro difference in the proportion of financing obtained locally was not statistically significant.

Financial capital seemed to be available locally to most nonmetro establishments—56 percent said they

obtained "all or almost all" financing for capital investments locally (table 21). However, one in three reported obtaining "little or none" locally. Worker training was also generally available in the local area, as most nonmetro respondents reported obtaining "all or almost all" or "over half" locally. Business financial planning expertise was somewhat less available locally, and technical and marketing expertise generally were not obtained in a nonmetro establishment's local area. While nonmetro establishments seemed to obtain less assistance and expertise locally, responses to other questions about problems with training, financing, and technology adoption barriers suggest that lack of local assistance is a relatively minor problem associated with rural location.

**Table 21—Expertise and assistance obtained locally by manufacturing establishments<sup>1</sup>**

Type of assistance	Nonmetro				Metro			
	All or almost all	More than half	Less than half	Little or none	All or almost all	More than half	Less than half	Little or none
	<i>Percent</i>							
Financing for capital investments in last three years <sup>2</sup>	56	5	6	33	61	6	5	27
Worker training source outside the establishment <sup>3</sup>	45*	23*	16*	16*	61*	19*	9*	11*
Business financial planning expertise <sup>4</sup>	38*	13*	13*	36*	49*	15*	10*	25*
Expertise concerning new technologies and management practices <sup>5</sup>	16*	17*	29*	37*	33*	19*	24*	24*
Marketing assistance <sup>6</sup>	15*	8*	15*	62*	18*	9*	20*	52*

\* = Significant difference between nonmetro and metro responses at the 0.05 level.

<sup>1</sup>Locally = within a 1-hour drive.

<sup>2</sup>Establishments reporting an expansion/modernization. N=1,478 nonmetro, 527 metro.

<sup>3</sup>Establishments reporting outside training. N=1293 nonmetro, 477 metro.

<sup>4</sup>Establishments reporting using outside expertise to develop a business or financial plan. N=999 nonmetro, 377 metro.

<sup>5</sup>Establishments reporting technical assistance. N=1,495 nonmetro, 556 metro.

<sup>6</sup>Establishments reporting marketing assistance. N=1,128 nonmetro, 372 metro.

Source: ERS Rural Manufacturing Survey, 1996.