

Financial Turbulence — LIBOR rates rise!

What are they and how do they affect the cost of borrowing?

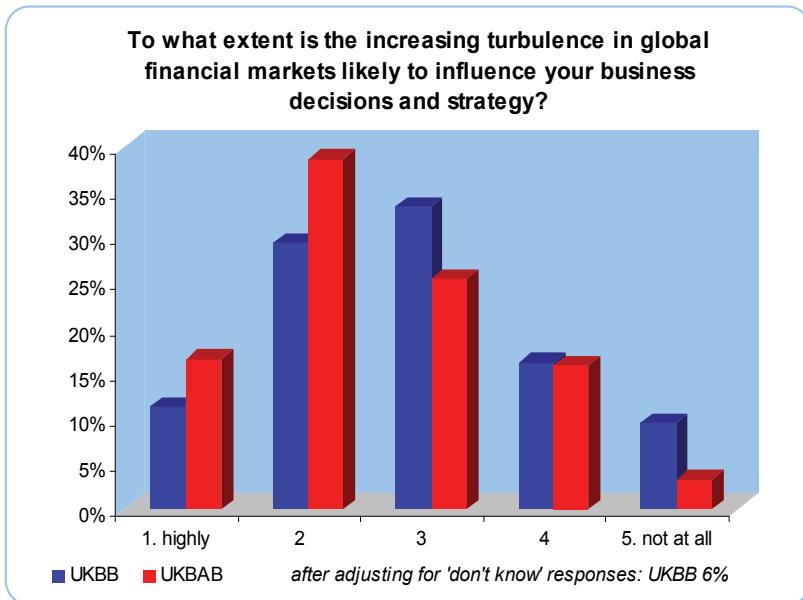
One way in which the problems being faced by many banks and financial institutions are surfacing is through increases in LIBOR rates* – the rates which banks charge for lending each other money. These rates are used as reference rates for many financial market transactions and run above the Bank of England official rate by varying amounts – during most of March 2008 the gap has increased as LIBOR rates rise.

**London Interbank Offered Rate*

It is the LIBOR rates which directly influence the cost of borrowing money for both businesses and individuals. The Bank of England is now looking at offering loans to banks to help meet their current financial commitments, thus reducing the strain on their liquidity by making more cash available to them in the short term. This would help to restrain upward movement in LIBOR rates.

The situation is one of concern to most respondents to the UKBB. Only 9% said it would be unlikely to influence business decisions and strategy, although 6% didn't know how much it would affect them. 38% said that they would be highly or to a considerable extent influenced, and another 32% chose category 3, the mid-point option, indicating a moderate extent of concern.

In the parallel survey of business advisers, panellists were surveyed to see how much they thought their clients' business decisions and strategy would be affected by the increasing turbulence in global financial markets. 17% of respondents to that survey thought clients would be highly influenced and 39% thought they would be influenced to a considerable extent, while 26% thought they would be influenced to a moderate extent.



Panellists' views

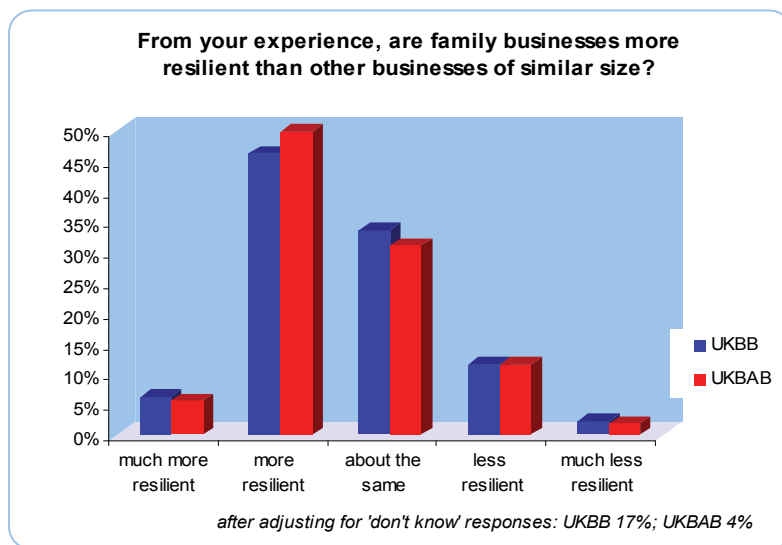
Apart from fuel costs I do not believe the full impact of the current global financial upheaval has filtered through to the majority of my clients.

Whilst it is good that companies are making more considered decisions and being more disciplined about debt, we need to continue to invest and encourage businesses to grow and develop. Stagnation makes recession a self-fulfilling prophecy ... I think banks need to be more creative in how they help companies to invest in a less risky way.

As the government's business advisory service proclaim the benefits of family-run businesses,

According to the government's business advisory service, the benefits of family-run businesses include, amongst other things, common values, strong commitment, loyalty, stability and decreased costs.

The BERR Annual Survey of Small Businesses' Opinions, published in February this year, estimates that 68% of all smaller (SME) businesses are family-owned and within that, 51% of medium sized businesses (with between 50 and 250 employees) are family-owned. Family businesses therefore constitute the vast majority of all private sector businesses. Whilst the characteristics of family-run businesses as detailed by the business advisory service are ingredients that support resilience, they are not necessarily sufficient to guarantee it.



The panels' verdict:-

After adjusting for those who responded with 'don't know', 53% of respondents to the UKBB said that from their experience, family businesses are more or much more resilient than comparably-sized non-family businesses, while 34% thought resilience is about the same whether family run or not. Business advisers were asked the same question in the UKBAB survey. Slightly more, 55%, thought that family business were more or much more resilient, while 31% thought resilience is about the same whether the business is family run or not.

Panellists' views

Family businesses may share common values and ethics, but this does not make them resilient. Keeping the business within the family can only strengthen it if the individuals have external experience to call upon.

However, small businesses can often offer a more flexible and reactive response to its customers than larger organisations and of course, have lower overheads.

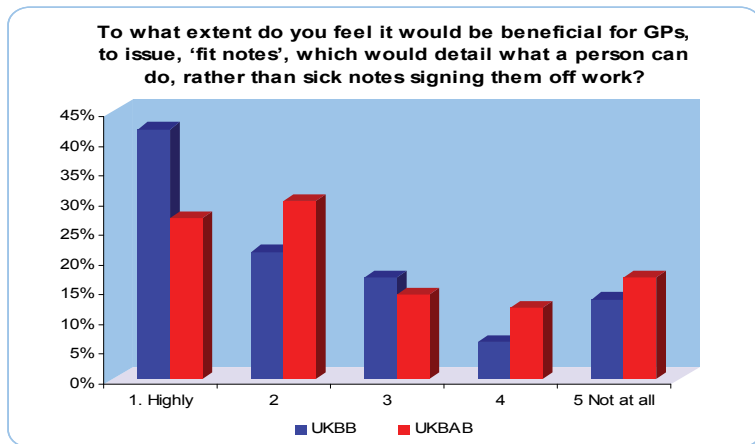
Family business is more resilient because the labour force (family members) often work many hours that are either unpaid or poorly paid, and the workers have a commitment to the continuance of the enterprise. In my opinion family firms are resilient but not necessarily efficient and effective.

Comparing family businesses to others is misleading—I have considerable experience of working with large private businesses and they have different problems to other businesses.

“Sick notes need to be reformed to suit the modern world” - your verdict on the thoughts of Dame Carol Black.

On March 18th 2008 the National Director for Health and Work, Professor Dame Carol Black, published the first review into the health of the working age population – Working for a Healthier Tomorrow – calling for urgent and comprehensive reform and a new approach to health and work. Among other conclusions, Dame Carol said that sick notes need to be reformed to suit the modern world. “The process labels individuals as ill and re-enforces the ‘sick note culture’” she said.

Panellists of both the UKBB and the UKBAB were mainly supportive of the proposals, with 63% of UKBB and 57% of UKBAB saying that such a change would be highly or to a considerable extent beneficial.



I have never agreed with sick notes from the doctor, and it will be a welcome change for people to receive a "Fit note" from their GP, encouraging the employer to have them back at work with limited capabilities. It also gets the employee into "getting back to work" thinking mode at their own pace, without feeling guilty and pressurised.

The sick note culture is mainly a civil servant issue, the rest of us can't afford to be permanently sick. Those that are sick in the private sector probably are!

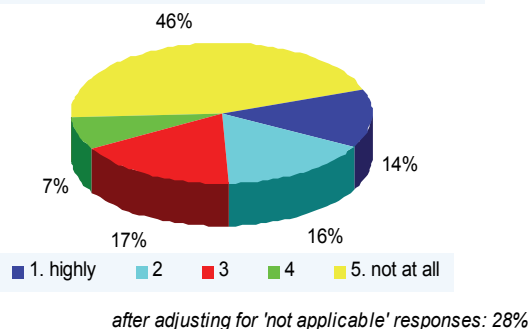
Panellists' views

Credit cards — payment timescales can vary from 3 to 60 days.

The ‘credit crunch’ ripples continue to spread, with impacts on credit card companies including announcements of staff redundancies and high levels of refusals to new applicants for cards. Lengthening payment dates to suppliers is another means of easing cashflow problems, and at least one credit card operator has been said to have taken this option. Payment timescales can vary between the different settlement systems, from up to 60 days by a bureau to only 3 days for a PSP (Payment Service Provider) - acquirer. Nearly one third of UKBB respondents say that such an action by credit card operators will/would affect their business highly or to a considerable extent and one respondent commented that their business would fold if it happened to them.

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Some credit card operators have increased the time it will take to pay the creditors from 3-4 days to 45 days. To what extent has this/will this affect your business?



> MAY 2008 EDITION — MARCH 2008 - BB116—THE QUESTIONS

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| <p>Q1. To what extent is the increasing turbulence in global financial markets likely to influence your business decisions and strategy?</p> <p>Q2. From your experience, are family businesses more resilient than other businesses of similar size?</p> <p>Q3. To what extent do you feel it would be beneficial for GPs, to issue, 'fit notes', which would detail what a person can do, rather than sick notes signing them off work?</p> <p>Q4. To what extent are you aware of the 'Train to Gain' initiative?</p> <p>Q5. To what extent do government initiatives such as 'Train to Gain' help you take action on skills issues?</p> <p>Q6. As an issue for your business, how highly would you rate the importance of training provision?</p> | <p>Q7. Has Do you conduct an regular analysis of your business's training needs (including your own needs)?</p> <p>Q8. If, as has been proposed, agency workers are given the same rights as full-time employees, to what extent would this influence your decision to employ such workers?</p> <p>Q9. How many follow up calls do you tend to/plan to make on sales leads before abandoning them?</p> <p>Q10. Credit card operators have increased the time it will take to pay the creditors from 3-4 days to 45 days. To what extent has this/will this affect your business?</p> <p>Q11. What impact would it have upon your business if you had to do without the use of credit cards?</p> <p>Q12. How often do you check on whether or not the services provided by your bank are competitive?</p> |
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To view the complete set of results for this and for previous surveys, follow this link:

www.ukbb.ac/UI/surveys.aspx

Sector			
Production & Manufacturing	Distribution	Services	Total
22.8%	9.6%	67.5%	100.0%

About the respondents:

In the March 2008 survey, 114 respondents were drawn with the following population characteristics:

Turnover (£)			
< 1 M	1M-3M	>3M	Total
66.7%	19.3%	14.0%	100.0%



Number of Full-time Employees					
1-10	11-20	21-50	51-100	100+	Total
59.6%	25.4%	7.9%	2.6%	4.4%	100.0%

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Please feed back your thoughts via the following link: www.ukbb.ac/UI/contact.aspx