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## RECEIVABLES PORTFOLIO OF POLISH COMPANIES

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**Summary:** Strong organizations have a decisive influence on the economic condition of a particular country. The lack of funds in due time leads to losing financial liquidity and bankruptcy of enterprises. In order to define the situation of the receivables portfolio of Polish companies, research using Companies' Receivables Index was applied. Its value is the highest since 2009. It means shortening the average waiting period for funds from the obtained trade credit. The proportion of companies declaring difficulties in the prompt covering of own liabilities which arose due to the lack of payments from customers is also decreasing. The costs of managing the portfolio of overdue receivables is going down. This rate also indicates the positive impressions of companies related to the quality of managing overdue receivables in the last three months.

**Keywords:** receivables, debt, bankruptcy, insolvency.

Strong enterprises of stable financial liquidity have decisive influence on the economic condition of a particular country. The lack of financial liquidity leads to the collapse and bankruptcy of economic entities all over the world. The largest number of bankruptcies – 1863 companies – was registered in 2002 [*Bankruptcy of Companies...* 2011]. Two thousand and eight shows the lowest number of insolvencies – only 411 companies. The global financial crisis resulted in the increase of insolvency of economic entities in Poland. In 2010, 655 economic entities declared their insolvency. In comparison to 2009, when bankruptcy was declared by 691 companies, the tendency seems to be decreasing. The latest report shows that the number of declared bankruptcies in 2011 did not go up and it amounted to 333 insolvencies in June. External factors influencing the number of bankruptcies comprise: the increase of raw material prices, adverse currency rates changes, unexpected increase of interest rates, changes in provisions of law, unstable government and authorities, and specific international relations. Regardless of the lack of strategy operations, low qualifications of managers, poor marketing and advertising, among internal factors, it is worth focusing our attention on too high a debt and ineffective debt collection. In his book *Strategia płynności finansowej przedsiębiorstwa* [Company's financial liquidity strategy], Dariusz Wędzki [2002] describes three phases leading to company's insolvency. The first phase includes the reduction of expenses related to remuneration, the costs of the board and sale, as

well as research and development (R&D). In the second phase, investment expenses are withheld and some fixed assets are sold. The third phase regards dismissing employees and selling a part of a company or its plants. When these solutions do not solve a problem, a company becomes bankrupt.

Nothing influences the financial situation of economic entities so much as payment backlogs, which arise as a result of business partners' overdue liabilities. The lack of funds prevents a company from fulfilling current liabilities and makes it slowly lose its liquidity until it becomes a bankrupt.

According to Grzegorz Michalski [2005], financial liquidity efficiency decides "whether the company will be successful or will fail. It is not sufficient to manufacture and sell products which are highly demanded at suitably high prices. Poor management of company's funds, especially its financial liquidity, may destroy all resulting benefits". Sierpińska and Wędzki [1997] claim that "financial liquidity decides about company's presence on the market. Experience of highly developed countries indicates that losing financial liquidity is the main cause of bankruptcy of SMEs". Over 1.7 million debtors were registered in the database of the National Debt Register as of July 2011<sup>1</sup>. This group includes economic entities and consumers who can become potential bankrupts or insolvent individuals. The factors having influence on economic entities' debts comprise external factors, such as:

- The macroeconomic factors deriving from company's external environment, for instance, global crisis and the economic situation of other Member States of the European Union influence the Polish economy;
- The style of finance management and organising household budget;
- payment priorities – someone receives payment for a supply and someone has to wait for it since this company is not a key account.

Internal factors influencing debt include:

- developing credit policy procedure, meaning regulations for sales with deferred terms of payments;
- credit risk assessment including the verification of a potential customer in available databases, for instance in KRD (National Debt Register);
- the guarantees and provisions of contracts, agreements, or orders protecting an entrepreneur against unreliable customers.

It is worth focusing attention on the long-term results of losing financial liquidity by economic entities and, eventually, bankruptcy. First, such an entity is related to others who are also suffering from the overdue liabilities of their customers. Second, the increase of unemployment rate, which is particularly severe in areas poorly developed in terms of economy, where finding a job is a really difficult process. In such cases, government's funds for unemployment benefit or social help increase. The social consequences of unemployment are extremely severe. In some parts of Poland, it means living in extreme poverty and social exclusion of the poorest. Further

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<sup>1</sup> See the official website of National Debt Register, [www.krd.pl](http://www.krd.pl) (date of access: 30.08.2011).

consequences of companies' insolvencies can be also named: the lack of funds for investments and innovation, no access to external financing, and blocked economic growth. These phenomena constitute the result of companies' bankruptcies not only in Poland, but also worldwide. A thesis may be advanced that the situation of Polish enterprises influences the economy of the entire country; thus, the stability of life and the prosperity of the entire society. So a question emerges: How to measure the situation of Polish enterprises?

The situation of Polish economic entities may be reflected in research studies conducted since 2009 by the National Debt Register and the Conference of Financial Companies in Poland (Konferencja Przedsiębiorstw Finansowych w Polsce). The objective of these research studies is to learn companies' opinions regarding the current condition as well as forecasts for the future, in the scope of the promptness of settling liabilities by customers and in the context of own financial situation. In the research found in *Receivables Portfolio of Polish Companies* [2011], the Index of Companies' Receivables (INP) was specified. This index reflects the condition and opinions of entrepreneurs related to six areas of receivables:

- 1) the status of problems with collecting receivables in the quarter prior to the research;
- 2) the forecast of problems with collecting receivables in the current quarter;
- 3) the proportion of overdue receivables in the company's portfolio;
- 4) the average period of overdue receivables;
- 5) the proportion of companies which, as a consequence of problems with receivables, cannot settle their liabilities on time;
- 6) the average proportion of enterprises' costs related to overdue payments of their customers.

In July 2011, research was carried out on a test sample of 1934 entrepreneurs across the country. This group included entrepreneurs using the services of the National Debt Register. In the research, the Index of Companies' Receivables topped to the historical value of 87.5 points. In the year-to-year comparison for 2009 and 2010, it is a significant growth (see Figure 1). These high rates of that index indicate:

- shortening the average waiting period for funds from the obtained trade credit;
- the decrease of the proportion of the companies declaring difficulties in prompt covering of own liabilities, which arose due to the lack of payments from customers;
- the decrease of the costs of managing the portfolio of overdue receivables;
- the positive impressions of companies related to the quality of managing overdue receivables in the last three months.

For the enterprises in Poland, the main consequence of high and growing rates of the index is the increase of the safety of transactions with customers in the business trading. Lowering the value of the index may be caused by the increase of the proportion of enterprises which, due to problems with receivables, cannot settle their

payments on time and by the increase of the average proportion of the costs related to overdue payments of customers.

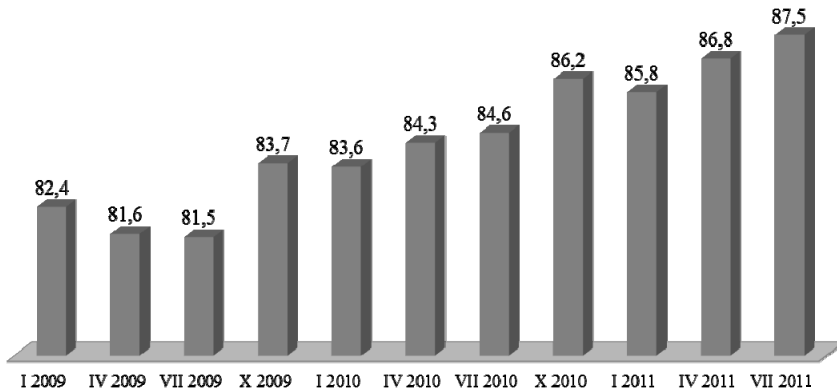


Fig. 1. The index of companies' receivables

Source: [Receivables Portfolio... 2011].

Analysing the results of conducted research, one may come to the following conclusions. Firstly, minor problems with collecting receivables were noticed – the proportion of companies which do not have these kind of problems is increasing. When comparing current results to 2009, it can be noticed that the number of companies not having difficulties with collecting receivables is twice as high (almost 20% in July 2011 and 10% in July 2009). Secondly, when compared to the past three months, the proportion of companies which claim that their financial situation improved increased (26.2% in 2Q of 2011 and 25% in 1Q of 2011). The proportion of the entities claiming that their financial situation got worse decreased (17.4% in 2Q of 2011 and 22.1% in 1Q of 2011). Thirdly, the decrease of average overdue receivables period from approx. four months and nine days to approx. four months was noticed. These results confirm that enterprises began to dispose of receivables which had arisen during the crisis. While in past quarters the share of receivables overdue over 12 months was increasing and topped at 16.0% of all overdue receivables in April 2011, currently its share is lower by 1/5 and equals to 12.9%. It is worth mentioning that in the overdue receivables portfolio almost 60% are receivables settled within three months exceeding the payment deadline (see Figure 2). For SME this may mean the lack of sufficient funds to settle own liabilities and the necessity to use external sources of financing business activity.

On the other hand, it is worth remembering that debts with payment terms up to three months are settled by debtors more eagerly and in a better way than those unregulated over a year. Since too high debt and low efficiency of debt collecting actions are one of the factors influencing company's bankruptcy, enterprises should

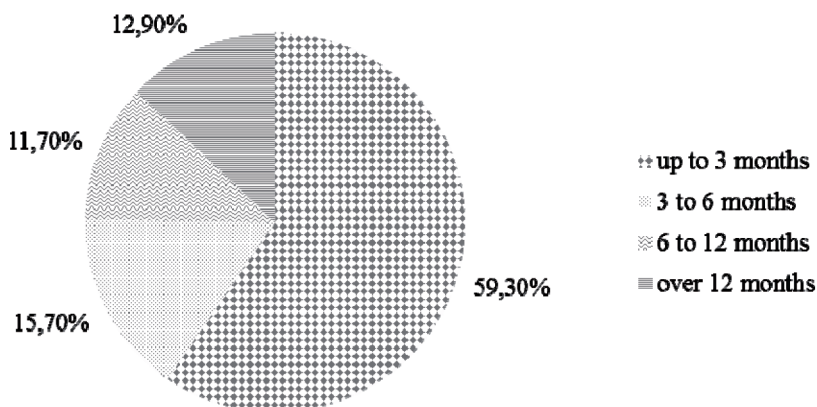


Fig. 2. The structure of companies' overdue receivables

Source: [*Receivables Portfolio...* 2011].

remember about the the tools available on the debt collection level, which improve the efficiency of collecting overdue receivables. Each business entity has to be aware of the risk of the lack of prompt payment by the customer with which it co-operates. This risk is dependent on three crucial factors:

1) the credibility and solvency of a customer – that is why it is so important to verify information about a potential customer before a company begins to co-operate with it;

2) the economic situation on the market and situation in the sector – the problems of entities of one sector may in time affect the enterprises of another sector which is related with a given sector;

3) the customer's manner of managing funds – broadly defined ethics of settling receivables and postponing payment deadlines, for instance, due to the global crisis.

Fourthly, in the conducted research, enterprises pointed out which actions are undertaken in case their customers do not settle receivables on time. In the first place, they indicated the lack of prompt settlement of own liabilities, which results in poorer supply conditions from their partners and the deterioration of the company's image. Secondly, companies are forced to limit investments, lower remuneration, and reduce remuneration budget. Next, companies focused attention on the problems with introducing new products to the market and the increasing prices of sold products and services.

For that reason, an entrepreneur that wants to improve the efficiency and situation of run business should eliminate obstacles related to managing receivables. Managing receivables is a process whose objective is to maintain financial liquidity of a company by preventing generating overdue receivables and their effective

collection at the level of amicable and court debt collection. The author observed that entrepreneurs tend to make the following mistakes:

- they do not verify customers' financial credibility and co-operate with entities which already have financial problems or are potential bankrupts;
- they conduct an inefficient monitoring of settlement of receivables, which means not recognising financial problems of consumers and ignoring customer's financial problems;
- they do not include any safety provisions in contracts and do not use contractual clauses, which make potential debt recovery easier;
- they treat overdue payments to liberally in fear of losing customers and agree to too long payment terms, especially in contracts with entities of strong market position.

Fifthly, the current quarter brought significant improvement in the sector of the costs of the servicing of overdue liabilities. July 2011 presented the lowest level of such costs in the history of this research. Currently, they constitute 7.9% of all the costs incurred by enterprises. The fall of costs related to overdue settlement of receivables by customers is, to a large extent, the result of the increase of the proportion of companies in which such costs constitute less than 10% of total costs.

To sum up the results of the research in *Receivables Portfolio of Polish Companies*, one needs to explicitly say that the assessment of the situation and the forecast of Polish enterprises for the future are positive. It may relate to better liquidity of trade credit market and company's settlements. This may also mean the lower, or similar to 2010, number of bankruptcies in Poland at the end of 2011. Entrepreneurs' moods indicate that regardless of the difficult economic situation of some European countries, Polish entrepreneurs are strong enough to deal with the problems of running own businesses. There is a chance that when the debt collection index will go up and entrepreneurs will settle their liabilities on time, lowering payment backlogs will improve the financial liquidity and the situation of the entities on the market. There will be no need to dismiss employees from work or reduce employment. The good condition of enterprises may result in the increase of investments and innovation in economy. Owing to that fact, Polish companies will be more competitive on international markets. The improvement of the situation and the receivables portfolio of Polish enterprises are also a good sign for further economic growth of the entire country.

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## PORTFEL NALEŻNOŚCI POLSKICH PRZEDSIĘBIORSTW

**Streszczenie:** O kondycji gospodarki danego kraju decydują silne organizacje. Brak środków finansowych w terminie doprowadza do utraty płynności finansowej i bankructw przedsiębiorstw. Do określenia kondycji portfela należności polskich firm posłużyły badania z użyciem wskaźnika Indeks Należności Przedsiębiorstw. Jego wartość jest najwyższa od 2009 roku. Oznacza to skrócenie przeciętnego okresu oczekiwania na środki finansowe, pochodzące z udzielonego kredytu kupieckiego. Spada też odsetek firm deklarujących trudności regulowania w terminie własnych zobowiązań, powstałych w wyniku braku płatności od klientów. Spadają koszty ponoszone na obsługę portfela przeterminowanych należności. Wskaźnik wskazuje na optymistyczne odczucia przedsiębiorstw co do jakości obsługi przeterminowanych należności w ostatnich trzech miesiącach.