

Marcin Idzik

Warsaw University of Life Sciences

CONTEMPORARY PROBLEMS OF FINANCING THE MICRO-, SMALL AND MEDIUM-SIZED ENTERPRISES AS WELL AS THEIR DEVELOPMENT

Abstract: The study presents the results of the analysis on the circumstances determinants considerations of using the external sources of financing companies' activities. The empirical material consisted of the results of the newest, unpublished surveys among the entrepreneurs on a nationwide, representative sample of $N = 1400$ micro, small and medium-sized companies. The study analyzes the conditions of using the external sources of financing on the part of the supply of the credits (barriers on the part of the banks) and on the part of the demand (barriers on the part of the entrepreneurs). We conducted a segmentation of enterprises in Poland in terms of the adopted development strategies and financing of the enterprises.

Keywords: financing enterprises, credits, development barriers, banks, management strategies.

1. Introduction

The development of the enterprises is determined mostly by free access to capital, and the problem of obstacles when obtaining capital is one of the most serious factors limiting the development of the Polish companies. Eight out of ten entrepreneurs finance their current activity with their own assets and every tenth uses other sources of financing their investment activity. The second source of financing the business is the money coming from loans from the family or friends [*Audyt bankowości...* 2010].

The company can be financed by obtaining capital from various sources. The selection of a particular source of financing depends on the type of the business activity of the company, the level of its development or the desired structure and capital cost [Siudak 2001]. Enterprises usually come across big difficulties in tapping external sources of financing, particularly, as regards obtaining bank loans [*Warunki powstawania...* 2005].

The entrepreneurs are not of the best opinion about banks, and one of the key expectations of the entrepreneurs from the banks is offering good credit terms. Thus, a question arises: To what extent do the determinants on the part of the supply of the credits (barriers on the part of the banks) and on the part of the demand (barriers on

the part of the entrepreneurs) decide on the scope and the method of financing the entrepreneurs? We also sought the answer to the following question: How wide is the area of the unsatisfied demand of the entrepreneurs for the credit products? Are the banks the partners in the economic activity? The continuation of the discussed issues was presented in the study entitled *Building competitiveness through cooperation of enterprises with banks*, where the answers to the following questions were sought: What are the entrepreneurs' ideas about the banks operating in Poland? What are the entrepreneurs' expectations from the banks and to what extent do the banks fulfill these needs? What is the evaluation of the enterprise-bank relation?

The surveys conducted by Pentor Research International constituted an empirical source of data. The research was conducted using the CAPI method – a computer assisted personal interview. The research was based on a sample of entrepreneurs of $N = 1400$ which included $N = 800$ micro-companies and $N = 600$ small and medium-sized companies.¹ The research was conducted in April and May, 2010.

2. The sources of financing the company's activities

The decisions connected with the method of financing both the current and investment activity of a company are based on objective factors connected with the economic potential of the company or the adopted strategy of development. The entrepreneur's awareness of the possibility of using various sources of external financing is also an important factor, namely, the availability of the external sources for the entrepreneurs and their evaluation as adequate for the financial needs of the enterprises.

One's own funds are a predominating method of financing company's activities in the awareness of the Polish entrepreneurs. This method is mentioned by six out of ten entrepreneurs. Fewer than half of the sole-proprietors are familiar with a bank loan as a source of financing, and in the group of small and medium-sized enterprises, it is indicated by at least 60% of the senior managers (Fig. 1). A lease as a method of financing a company is known to more than 40% of sole-proprietors and micro-companies, to more than half of the small enterprises and to 70% of the medium-sized companies.

The size of the company is a factor which has a strong influence on the knowledge, the needs and behaviors of companies on the financial market. The bigger a company, the higher the awareness of various financial instruments and the willingness to use them; however, in the Polish circumstances, the basic source of financing company's activities (in the sphere of awareness and actual behaviors) are company's own funds. Generally speaking, two-thirds of the SME companies indicate this source.

¹ The research included a randomly selected representative and nationwide sample of the senior managers of companies. A micro-enterprise means a company which employs not more than 10 persons with a yearly net revenue of less than 2m euro or the sum of its assets in the yearly balance which does not exceed 2m euro; a small enterprise has a yearly net revenue from 2 to 10m euro and employs 10-45 people; and a medium-sized company has a turnover of 10-50m euro and employs 50-250 people.

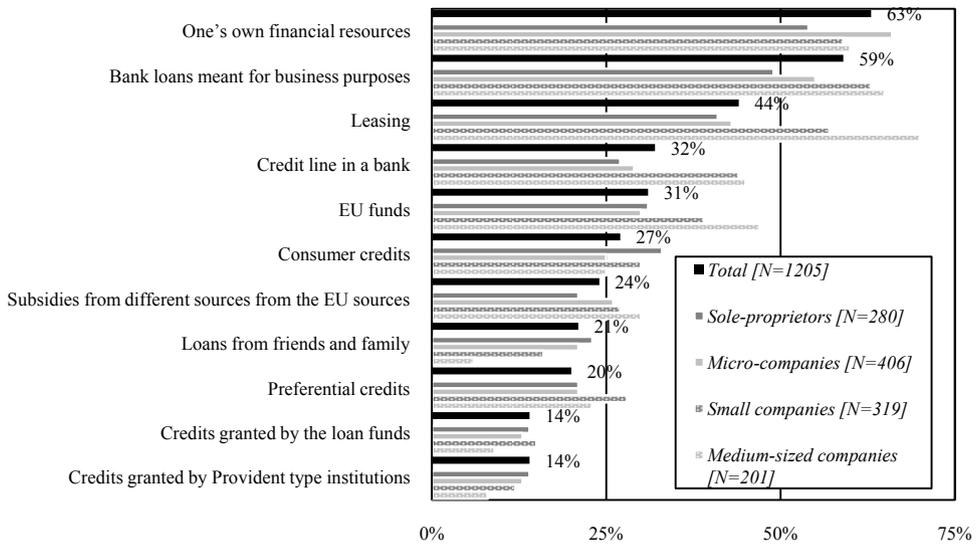


Fig. 1. Sources of financing company's activities known to companies

Source: [Procesy inwestycyjne... 2010].

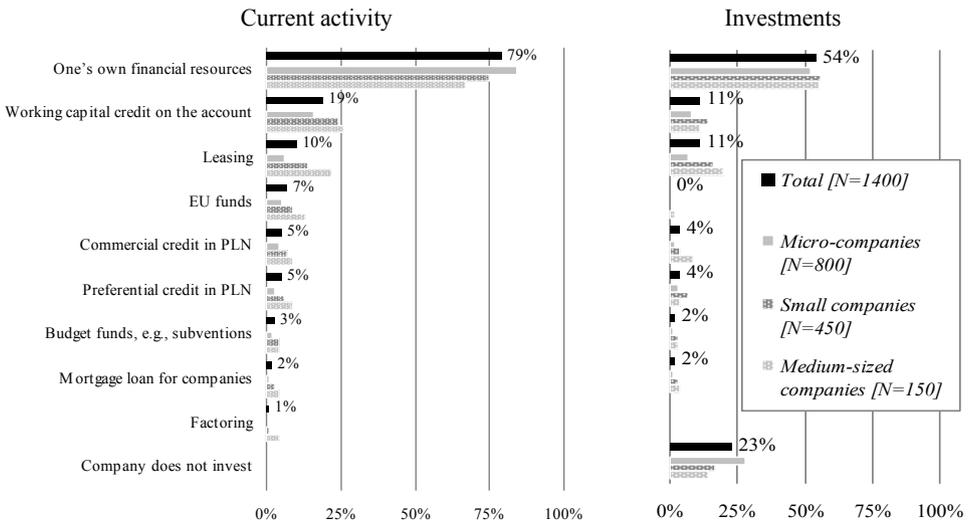


Fig. 2. Used sources of financing the current activities and investments of a company

Source: [Micro-companies Banking... 2010; SME Banking Audit... 2010].

The practice of financing company's activities shows that the actual use of the financing sources is not diversified. Regardless of whether the companies are concentrated on the current activities or on investments, company's own funds are

the main source of financing (Fig. 2), and the willingness to use any other financial instruments is miniscule (Fig. 4).

The conducted studies enabled us to compare the forms of financing in the group of micro-companies from 2005 to 2010. In the case of the micro-companies throughout 2005-2010, we could see a lower inclination to rely on one's own financial

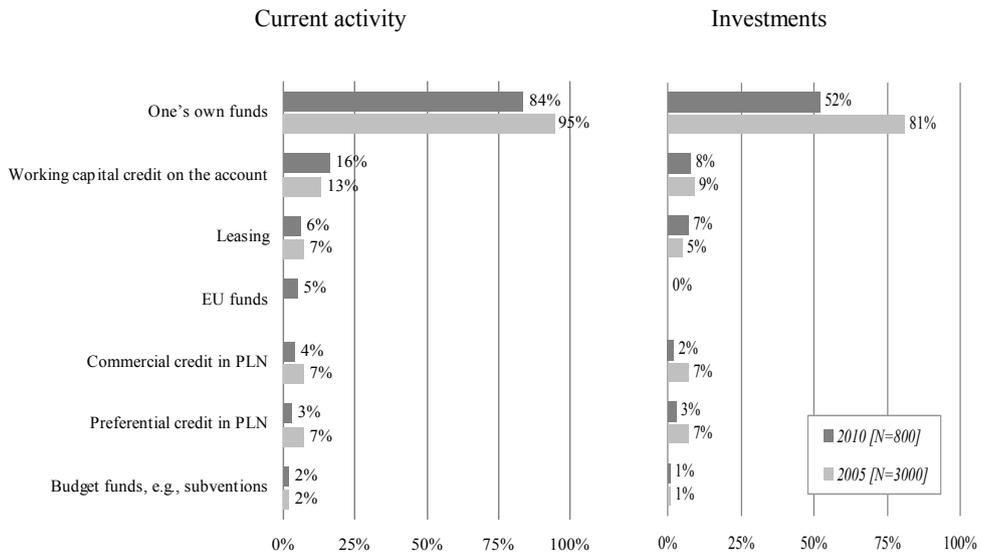


Fig. 3. Changes of the sources of financing the activities of micro-companies in 2005-2010

Source: [Micro-companies Banking... 2005, 2010].

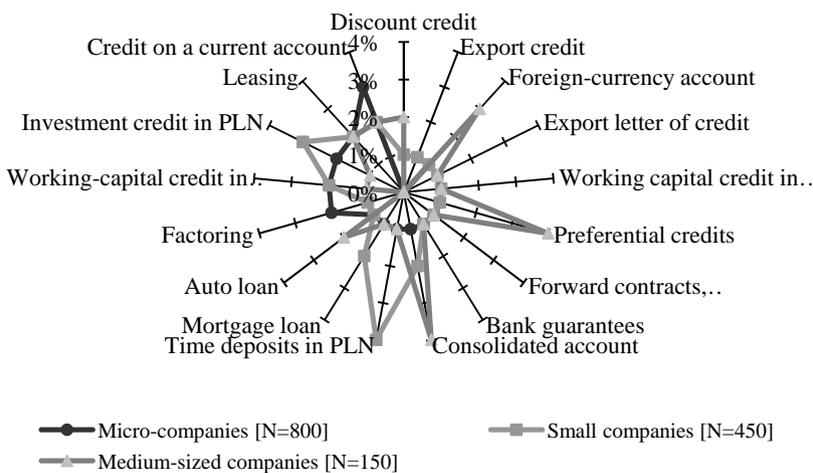


Fig. 4. Willingness to use the banking services that the company does not use at present

Source: [Micro-companies Banking... 2010; SME Banking Audit... 2010].

assets, particularly in the investment activity – a drop from 81% by almost 30 percentage points (Fig. 3). However, it does not entail increased interest in using the other sources of financing.

The limited sources of financing the company's activities are a part of a bigger problem. The majority of the companies do not display their willingness to use new banking services. The declared willingness to use one of the available products does not exceed 4% (Fig. 4). Because of the small magnitude of interest in the banking products it is the banks which have to worry about winning over new customers, presenting them offers and encouraging them to use them.

In a narrow group of entrepreneurs interested in using new services a dependency is revealed according to which the needs and willingness to use new banking products and services are closely related to the size of the company (Fig. 4). The micro-companies would be most of all interested in a credit on a current account (3%). The small enterprises report their willingness to open a time deposit (4%), taking out an investment credit in PLN or using on-line or telephone banking (3%). The medium-sized companies would be most of all interested in consolidated accounts and preferential credits (4%) and in foreign-currency accounts (3%).

3. Factors determining access to bank loans

Bank loans can be one of the effective sources of financing investments as well as the current activity; however, access to them is highly limited in the opinion of the entrepreneurs. The problem of insufficient availability of loans is a multidimensional one. The reasons for the unsatisfied demand for the financial means lie partly on the part of the banks, but also on the side of the entrepreneurs. At this point, we should refer to the studies on the category of the needs and regularities connected with them [Kłopotcka 2004].

1. There is no economic activity which would not arise from the need. However, in order for the need to inspire action, it is necessary to go through the human filter of consciousness. The other conditions are the familiarity with the object that can fulfill a given need and a conviction that this fulfillment is possible even if to a miniscule degree.

2. The awareness of the needs, means and methods of fulfilling them is determined by the financial effects of the functioning of a company.

3. The entrepreneurs form their needs and aspirations as a result of contacts with the surroundings.

Engaging in “a credit relation” with a banking institution is, therefore, conditioned by the fact that a certain need is present in the entrepreneur's consciousness, that the entrepreneur knows that a bank offers an adequate service and a conviction that using a bank offer which meets a given need is possible. However, in order for this mechanism to work, it is necessary to overcome obstacles connected with the level

of the revenues and the company's economic potential, consciousness, knowledge and inclination to use the banking services by the company senior managers. On the part of the banks, it is necessary to improve the availability of the services (Fig. 5).

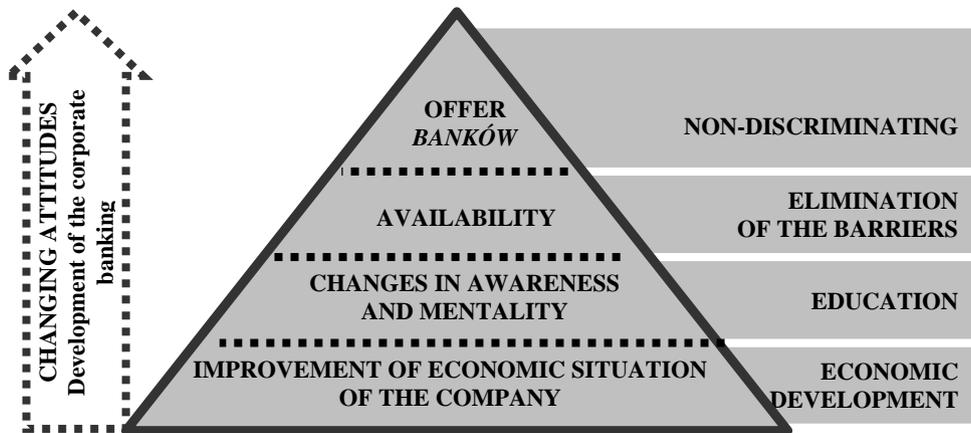


Fig. 5. Factors that determine the change of the entrepreneurs' attitudes towards the banks and the development of banking for the small and medium-sized enterprises in Poland

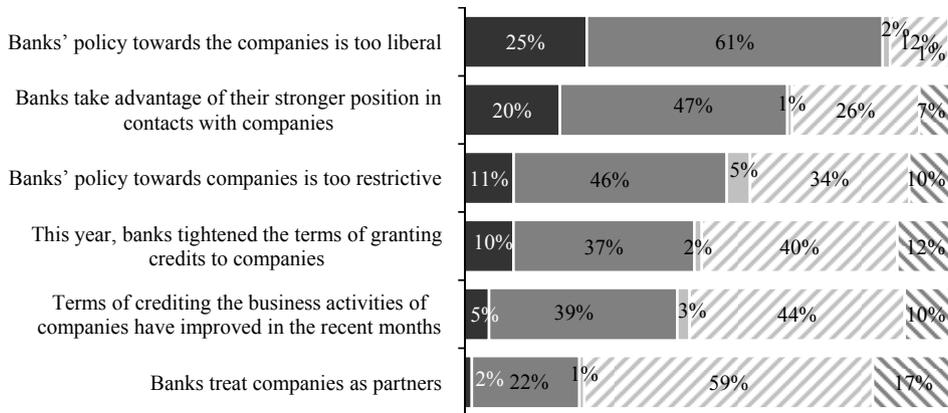
Source: [Śmiłowski 2004].

In the opinion of the bankers [*Monitor Bankowy...* 2010], no guarantees or insufficient guarantees are the most common problems that the credit committees come across when analyzing credit applications. A common shortcoming is also a lack of history or credit rating of the customer. The credit applications submitted by the entrepreneurs from the micro-company segment are usually evaluated negatively by the bankers. Their quality definitely lingers behind the quality presented by the applications submitted by large companies or even the companies from the SME sector [*Monitor Bankowy...* 2008].

In the opinion of three-quarters of the banks' representatives, the relations between the banks and companies are of a partnership character (Fig. 6). More than half of the banks' representatives think that the terms of granting credits for companies became tighter in 2010.

Almost half of the banks' representatives (43%) think that the banks' policy towards companies is too restrictive, and every third respondent thinks that banks take advantage of their stronger position in contacts with companies.

Banks do not conceal that they are hesitant about financing the sector of enterprises, particularly the micro-enterprises. Difficulties in obtaining foreign capital in the case of the micro-enterprises are caused by several factors, namely, a high susceptibility to bankruptcy, incomplete information about small and medium-sized companies, high requirements as regards the guarantees and collateral as well as a relatively small scale of the economic activity.



■ 1 – Totally disagree ■ 2 – Rather disagree ■ 3 – Difficult to say ▨ 4 – Rather agree ▩ 5 – Totally agree

Fig. 6. Banks' policy towards companies in 2010 in the evaluation of the banks' representatives

Source: [*Monitor Bankowy...* 2010].

In the opinion of the bankers, companies seldom manage their own money which by nature makes them unwilling to take risks. In the opinion of the bankers, particularly in the case of the micro-companies, the border between the company's capital and the wealth of the proprietors are blurred which is one of the main reasons for the banks high reservation towards this group of customers.

An obstacle for using financial means in the form of bank loans also lies on the part of the entrepreneurs whose level of knowledge even about the most basic credit products leaves a lot to be desired. The entrepreneurs know most about the most commonly used banking products and services. They know little about the consulting services offered by the banks, financial consulting and tax consulting. The entrepreneurs know particularly little about the credit products where the majority of the entrepreneurs claim that they do not know almost anything about it. Despite this, when making a self-evaluation of their familiarity with a bank offer, the entrepreneurs declare a high level of familiarity (Fig. 7). A self-evaluation of the familiarity with the bank offer depends little on the size of the company; however, one should note that during the crisis there was a drop in the number of companies which thought that they knew the offer of the banking sector very well. There were companies which were unable to have any opinion about it at all. About one-third of the companies think that at present they know the range of the services offered by the banks very well. In the case of the small and medium-sized companies, this means a distinct drop in the size of the group (in the case of the medium-sized companies, it dwindled by almost 10 percentage points). About 60% of the companies think that their level of familiarity with the bank offer is quite good. This means that more than 90% of the companies in the SME sector are convinced that they are well-versed in the offers

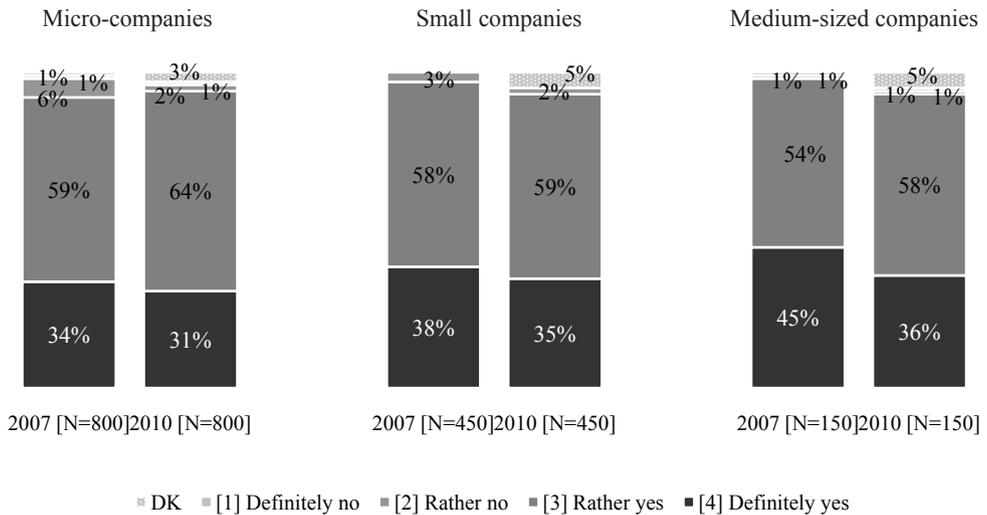


Fig. 7. Degree of familiarity with the banks' offer by the entrepreneurs

Source: [*Micro-companies Banking...* 2007, 2010; *SME Banking Audit...* 2007, 2010].

of the banking sector. These data are not confirmed by the practice of looking for sources of financing the economic activity or at least the general knowledge about those sources. This dissonance may suggest that companies, on their own accord, will not be inclined to seek information about the banking offer.

4. Attitudes towards external financing

A segmentation analysis complemented the general picture of the market. It aimed at selecting homogeneous segments of entrepreneurs in terms of strategies of financing the enterprises.² The analysis isolated the groups which differed from each other in the following areas:

1. Attitudes towards financing defined with such statements as:
 - What my company has, is enough, and we do not have to take out credits.
 - My company would take out a loan only in case of serious financial problems.
 - Taking out a loan makes sense only in the case of large investments.
 - I do not use credits because I do not know if in the future I will be able to repay them.

² A segmentation analysis was conducted within the scope of the project: "Investment and strategic processes of enterprises during a crisis", PARP, 2010. The research was conducted in December 2009 on a sample of enterprises from the SME sector in Poland of $N = 1206$ companies which included micro-companies as well as small and medium-sized ones. The segmentation was made on the basis of the analysis of latent classes (LCA), which uses not only the collected data but also hidden variables for segmentation.

- A credit is a normal way of financing the activity of a company.
 - It is not worth trying to get subsidies because it takes too much time.
 - We are not trying to get any subsidies because we would not receive them anyway.
2. Attitudes towards managing and making decisions are defined with such statements as:
- During a crisis, a company like mine should be operated on the basis of a clearly set out plan of action.
 - The fact how my company functions during the crisis depends solely on actions undertaken inside the company.
 - In crisis situations, it is extremely difficult to make the right decisions.
 - I am so concentrated on the current situation of the company that I do not even have the time to think about its future development. It is difficult to make decisions myself about how much and how to work to make it effective.
 - It is better if more people are involved in the decision process.
3. Expectations from the external support are defined with the following statements:
- The state and other public institutions should support entrepreneurs during the crisis.
4. Attitudes towards the crisis are defined with such statements as:
- During a crisis, a company should worry about its survival and not make any investments.
 - A crisis can be used as a good opportunity to look for new chances of development.
 - The current crisis situation is mostly a medial fact.
 - I am optimistic when looking into the future, and I believe that the crisis will be over soon.
 - I am afraid that the company will go bankrupt if the crisis lasts longer.
- The most numerous group among the Polish companies from the SME sector are the companies which can be called “antiformalists” (Fig. 8). Every third representative of this group is a sole-proprietor and two-thirds are micro-companies. Almost half of the companies in this segment evaluate their financial situation as average and in the opinion of 39% it is good or very good.
- The characteristic features of this group of companies are:
- 42% of the companies in this segment finance their operations from their own funds; every tenth has an open credit line in a bank, and not much fewer use a lease and banking credits (Table 1),
 - the enterprises from this segment are reluctant towards taking out credits, and they are afraid that there will be problems repaying them,
 - the companies from this group are quite open to subsidies but they rarely apply for them fearing the formalities connected with this.

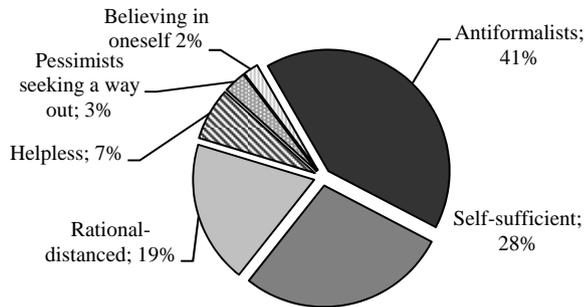


Fig. 8. Segmentation of the Polish enterprises by attitudes towards various forms and sources of external financing

Source: [*Procesy inwestycyjne...* 2010].

Table 1. The used sources of financing the activities of the company by the isolated segments (in %)

	Antiformalists	Self-sufficient	Rational-distanced	Helpless	Pessimists seeking a way out	Believing in oneself
Size	<i>N</i> = 503	<i>N</i> = 332	<i>N</i> = 224	<i>N</i> = 79	<i>N</i> = 37	<i>N</i> = 29
One's own financial resources	42	60	36	68	79	33
Banking credits for business activity	8	4	37	1	69	58
Leasing	9	6	19	8	31	11
Credit line in a bank	11	2	21	0	21	30
EU funds	2	2	7	0	0	5
Preferential credits	4	0	4	0	1	7
Loans from friends and family	2	2	1	4	4	0
Consumer credits	2	1	2	1	8	1
Subsidies from the EU funds	1	1	3	0	1	2
Credits granted by loan funds	0	0	1	0	0	0
None of the above	36	36	17	25	1	3
DK	5	1	3	7	0	19

Source: [Orłowski et al. 2010, p. 104].

More than one out of four companies in the SME sector can be included in the “self-sufficient” segment. There is an overrepresentation of micro-companies there (80%). Two-thirds among them evaluate well their financial situation.

- Their main feature is to reject external sources of financing company's activities and 60% of the entrepreneurs from this segment rely on their own resources. A wide magnitude of using one's own means is not caused by the reluctance to

loans, but it remains in relation with the significance that entrepreneurs attach to coping in different circumstances on their own.

- The entrepreneurs from this segment are interested in taking out loans in extraordinary situations, such as large investments or financial problems.
- In practice, 6% of them use a lease and only one out of twenty-five companies use corporate credits.
- Just like in the case of “antiformalists,” more than every third company declares not using any of the sources of financing which makes us believe that the level of knowledge about the mechanisms of financing companies is small in this segment.

A segment of those “rationally distanced” includes every fifth SME company. The structure of this group is similar to the structure of the whole sector. More than half of them evaluate their financial situation well.

- They are open to various sources of financing. They are not afraid to take out loans or to apply for subsidies.
- More than every third company relies on its own resources, and a similar number of companies rely on corporate credits.
- Every fifth enterprise has an open credit line in a bank, and the same group uses a lease.

A relatively narrow segment is comprised of “pessimists seeking a way out.” In this group, micro-companies constitute almost 90%, and 60% out of them evaluate badly their economic situation. Every tenth enterprise in this segment evaluates its financial situation as good or very good.

- 79% of the enterprises rely on their own resources, but what makes them different from the self-sufficient ones is that they are willing to go for external sources of financing.
- More than two-thirds of the enterprises from this segment take out bank loans that are granted only for the purpose of the business activity; every third company uses a lease and every fifth has a open credit line in a bank.
- 8% of the companies in this segment finance their business activity by consumer credits.
- The entrepreneurs from this segment are reluctant to use subsidies which they think are mostly the source of troubles and time-consuming duties.

The smallest segment on the market is comprised of those who “believe in themselves.” The micro-companies are over-represented in this segment. Three quarters of the companies in this group evaluate their financial situation well.

- The entrepreneurs from this segment are very open to various external sources of financing the business activity of an enterprise.
- A loan is a normal form of financing for them. More than half of the companies use credits meant for business activity. 30% has an open credit line in a bank, and 7% took out preferential credits.
- Every third enterprise from this segment relies on its own resources.

- The enterprises from this segment willingly apply for subsidies, and 5% use the European Union's funds.
The last selected segment of companies which constitutes 7% of the enterprises in Poland is the segment called "the helpless." More than one-third of this segment consists of sole-proprietors. 60% of the companies from this segment evaluate their financial situation as average and 12% are satisfied with it.
- The entrepreneurs from this segment are very reluctant to use the external sources of financing. More than every third company does not trust the institutions in the business environment at all.
- More than two-thirds rely on their own financial resources.
- The entrepreneurs from this group fear that they might not be able to repay the loans and prefer to stay away from them. If necessary they take loans from their families (4%).
- These companies trust leasing more as a form of financing the company's activities (8%).

5. Summary

The entrepreneurs in Poland have very limited knowledge about the possible sources of financing of the economic activity. Only the simplest forms are commonly known. The low awareness about the possible sources of financing is accompanied by a low level of utilizing the existing possibilities.

Although a number of barriers connected with using the external sources of financing are on the part of the entrepreneurs, it does not mean that the attitude represented by the banks is fully justified. Banks' credit policy is important, and it is evaluated as strict by both the entrepreneurs as well as the bankers themselves. Small companies are frequently unable to meet the requirements demanded by the banks when trying to use the credit offer.

The fundamental barrier connected with competence and entrepreneurs' knowledge about the bank offer and other alternative sources of financing the company's activities must also be overcome.

Elimination of the access barriers to credits on the part of the entrepreneurs is carried out by the development of the National System of Services for the Small and Medium-Sized Enterprises (Krajowego Systemu Usług dla Małych i Średnich Przedsiębiorstw), free-of-charge consultations for the entrepreneurs as well as the functioning of the business incubators and the regional centers for the entrepreneurship. Owing to the activities of these institutions there is a positive change in the entrepreneurs' knowledge. As regards the collateral issue, there are special funds of credit guarantees which can be very helpful in this scope. However, with reference to this category, overcoming the barriers of accessing the capital may turn out to be relatively difficult.

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WSPÓŁCZESNE PROBLEMY FINANSOWANIA I ROZWOJU PRZEDSIĘBIORSTW MIKRO, MAŁYCH I ŚREDNICH

Streszczenie: W opracowaniu przedstawiono wyniki analizy uwarunkowań korzystania z zewnętrznych źródeł finansowania działalności przedsiębiorstw. Materiał empiryczny stanowiły wyniki najnowszych, nie publikowanych dotąd wyników badań wśród przedsiębiorców na ogólnopolskiej reprezentatywnej dla firm mikro, małych i średnich liczącej $N = 1400$ podmiotów. Analizie poddano warunki korzystania z zewnętrznych źródeł finansowania, zarówno te po stronie podaży kredytów (bariery po stronie banków), jak i te po stronie popytowej (bariery po stronie przedsiębiorców). Przeprowadzono segmentację przedsiębiorstw w Polsce pod względem przyjętych strategii rozwoju i finansowania przedsiębiorstw.