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Cooperation with bank as a competitiveness factor for the export-oriented company[1]

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Keywords: SME, banks, export capacity, export financing, bank services, debt concentration, bank-company relations

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Cooperation with bank as a competitiveness factor for the export-oriented company.

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Abstract:

The present paper concerns the evaluation of the relationship between SMEs conducting export business and the banks that support them. The evaluation will assess the share of banks in financing these companies, the reason for establishing a relationship, the intensity of the relationship and dependence of companies on the main partner bank. The analysis is based on research of Polish exporting businesses and was carried out by using standard EFIGE questionnaires.

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Contents

1. INTRODUCTION

Construction or improvement of the export capacity of local companies or SMEs is one of the key problems of modern economic policy. General attention is drawn to modernity and innovation of products, technological level, labor cost, energy cost, taxation, foreign trade policy elements and many others. This happens both in economic journalism, discussion of government programs, as well as "normal" scientific research. Quite aside there exist problems related to financing export activities, availability and costs of services associated with it. Without credit financing of export contracts, access to services such as bank guarantees, letters of credit (standby but also documentary), collections, factoring and forfeiting, they will have no chance of being competitive on international markets, particularly where it is important to enter with a good offer. In addition, all of these services must not only be easy to obtain but primarily as cheap as possible. This is largely related to the level of development and competition in the banking sector, but also to the existence of government support programs.

Many authors in their papers state that those relations have a crucial role of supporting companies in international expansion. Banks as well as investment funds or insurance companies, but also factoring companies perform just such a supportive role. On the other hand, availability of as cheap as possible a source of capital is crucial for building competitive advantage on international markets.

Banks play a special role in the Polish economy, which still feels a lack of, specially long-term, capital. Polish companies are quite small. Of nearly 2.7 mn companies existing so far in Poland, only 11,380 are joint-stock companies that can take advantage of capital market financing. Only 500 use this option. Others are "doomed" to financing by banks. The Polish capital market is still in the beginning stage and it is too hard to call it a good and stable source of capital. This explains why the relationship between banks and small and medium-sized businesses has become so important and weighs on the export capabilities of Polish enterprises.

2. RESEARCH OBJECTIVES

The presented paper examines the influence of the relations of companies with banks on their export activity. This paper will examine some aspects of the relations with special focus on:

- Structure of financing of exporting companies (this part will answer the question: How does the financial position influence international activity?)
- Average number of cooperating banks (diversification of the financial services accessibility risk)
- Concentration of a debt (assessing the influence of a bank’s negotiating position on the international activity of Polish SMEs)
- Condition of the debt – information which was expected from the enterprises by banks
- Loan collateral expected by banks
- Nationality of the leading bank (due to the popular opinion that foreign banks do not support international activity of Polish enterprises).

The analysis will provide for some classes of enterprises based on revenues with reference to the whole population.

The main research questions of the paper are the following: Are banks the best source of financing? What can happen in the situation where access to the other segments of financial markets is limited? Can good cooperation with banks help companies achieve a better market position on international markets too? It means that Polish companies will have different results than in Bartoli, Ferri, Murro, Rotondi (2012) research for the Italian market.

Partial research questions are the following:

- Loan financing conditions depend on the size of company,
- In periods of crisis, banks expect more “real” forms of collateral,
- Nationality has no influence on the condition of bank loan financing,
- Selection of the number of cooperating banks depends on company size,
- Technologically oriented companies have different expectations from traditional ones,
- The number of cooperating banks depends not on export activity but on the size of the company.

3. METHODOLOGY

The research is primarily based on the EFIGE questionnaire where four questions (F.1. –about structure of financing, F.9 – about the number of cooperating banks, F.10. – about the concentration of debt in leading cooperating bank and F.12. – focused on key factors for choosing partner bank) are used. All of those questions were an element of bigger research that covered 698 enterprises engaged in export activities in 2008[3] with yearly turnover of up to EUR 50 mn. The composition of the sample was intentional and the assumptions reflect the structure of enterprises operating in Poland. As export activities are mainly undertaken by larger entities, entities with revenues of more than EUR 10 mn prevail also in the tested sample. At the same time, this leads to their over-representativeness in comparison with the structure of business entities operating in Poland. Finally, the reviewed enterprises and companies are divided into seven groups on the basis of yearly income. The classes are the following:

- I - Companies with turnover of up to EUR 250,000 (272 enterprises – 39.0% of the population),
- II - Companies with turnover of between EUR 250,000 and 500,000 (171 enterprises – 24.5%),
- III - Companies with turnover of between EUR 500,000 and 1 mn (148 enterprises – 21.2%),
- IV - Companies with turnover of between EUR 1 and 2 mn (52 enterprises – 7.5%)
- V - Companies with turnover of between EUR 2 and 10 mn (35 enterprises – 5.0%)
- VI - Companies with turnover of between EUR 10 and 15 mn (12 enterprises – 1.7%)
- VII - Companies with turnover of between EUR 15 and 50 mn (7 enterprises – 1.1%).

[3] Provided research was widened and cover 835 companies including the reference group of companies and enterprises without export activity.

The adopted structure of the research sample has several drawbacks. The last two classes are poorly represented. The correct inference based on the answers of respondents 12 or 7 is very difficult. It is all the more difficult that such small groups do not represent significant industries. In addition, other classes have failed to reflect the sectoral structure of Polish exports. According to the author, however, it is possible to infer the general terms of the research sample and the result should reflect general rules for the population.

It is also possible thanks to the survey design based on a questionnaire tested by EFIGE in 8 European countries before. Thanks to such a study design, all respondents in Poland easily understood the questions and gave complete answers. All questions analyzed in this article were closed and respondents could choose one of the options or enter specific information as a new option.

Qualitative methods were selected for data analysis. The data used in the research related to 2013. The survey was done in the late 2014 and early 2015.

4. LITERATURE STUDIES

The author reviewed 137 books and scientific articles on export or export financing activities of enterprises. A deeper analysis allowed for choosing studies focused on SMEs and their financing and exports.

Peel, Bridge (1998)	SMEs incorporate a range of objectives into the strategic planning process, with improvement perceived as the most important objective, followed by sales growth. In particular, the evidence presented in this paper indicates that SMEs engaged in detailed strategic planning are more likely to utilize formal capital budgeting techniques.
Smith (1998)	The paper contains an empirical analysis of the strategy processes followed by new small firms to achieve speedy growth and success, including financial and market decisions.
Beck, Demirguc-Kunt (2006)	Recent research on access to finance by small and medium-size enterprises (SMEs). Financial and institutional development helps alleviate SMEs growth constrains and increase their access to external finance and thus levels the playing field between firms of different sizes.
Berger, Udell (2006)	Analysis of the credit availability issues.
Cull, Davis, Lamoreaux, Rosenthal (2006)	The evidence of financing of SMEs in the 19^{th} and early 20^{th} centuries.
Voordeckers, Steijvers (2006)	Analyzing the database of SME credit approvals from large Belgian bank – analyzing determinants of collateral.
Torre de la, Peria, Schmukler (2010)	Examining conditions and levels of relations between banks and SMEs.
Bartoli, Ferri, Murro, Rotondi (2012)	The results for Italian SMEs and banks show that among exporting SBs those using bank services to support their exports have a higher probability of being better placed in both intensive and extensive margin. More importantly, these positive impacts on exports are statistically significant only when the main bank of the firm is an internationalized bank.

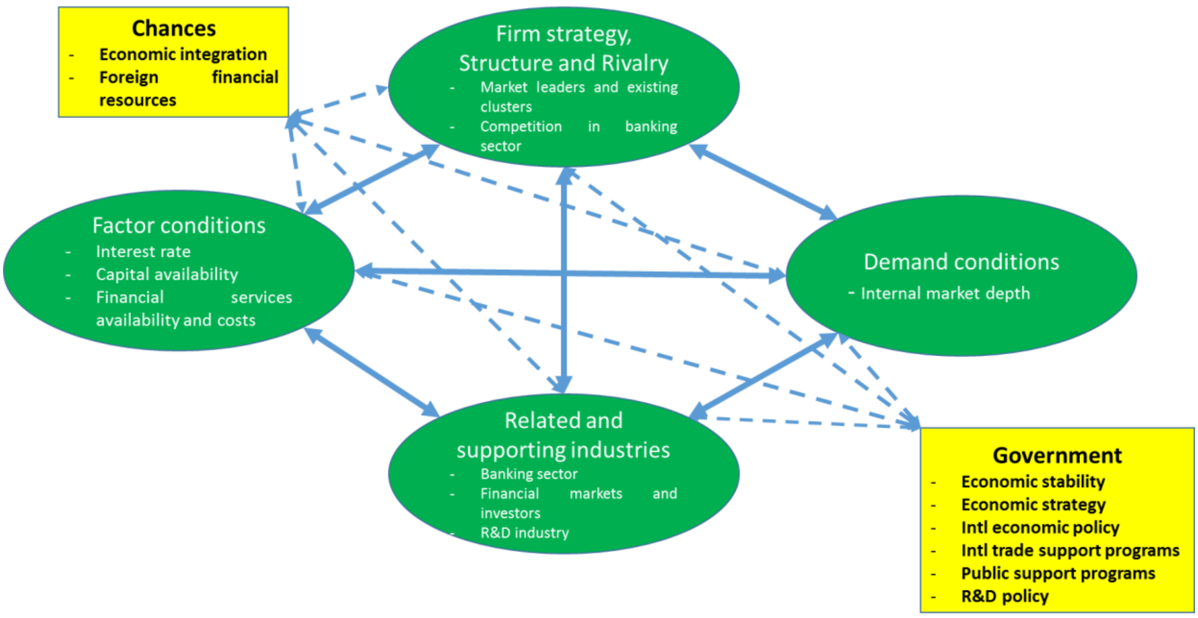
Abor, Agbloyor, Kuipo (2014)	The results suggest that SME access to bank finance improves their likelihood to export. The study results show that older firms, larger firms are more likely to take the important step of entering an export market.

Note, however, that very few publications concern the relationship between banks and enterprises engaged in export activities. This paper may constitute an introduction to the problem of SMEs or wider companies' relations with banks as an element of international competitiveness of export activity.

5. BANKING INDUSTRY RELATIONS AS AN ELEMENT OF THE EXPORT COMPETITIVENESS

The purpose of this paper is not to analyze the concept of competitiveness, especially that literature studies on this subject are very rich. Therefore, without conducting any further analysis, the author adopted the broadest definition of export competitiveness as opportunities for beneficial product placement on foreign markets. These opportunities depend on many factors, including cost relations, perceived quality, technological advancement, etc. One often overlooked factor is the availability of cheap sources of capital to finance companies' international activities. In the analysis of the described relationships, a modified model of Porter's diamond is helpful (Figure 1).

Figure 1.
Competitiveness in international trade based on financial issues – extended Porter's diamond model.



Source: Prepared by the author based on Porter (1990)

Obtaining a favorable export contract depends on offering the partner favorable financial conditions in terms of price, financing and the availability of low-cost services such as bank guarantees, standby letters of credit and associated services, documentary collections, factoring or export pre-financing. These conditions will be fulfilled if exporters benefit from high availability of financing at a low interest rate and low-cost financial services (factor conditions). This in turn means the effective functioning of the banking system with strong financial markets and providers of capital – investors (related and supported industries) operating on these markets. An effective banking system will not be possible with low competition, a small number of banks providing low quality services, and the orientation of banks towards offering low-risk services. Such an approach would preclude support for SMEs and finally exclude SMEs from all available, not only export, markets (strategy, structure and rivalry). On the one hand, the financial system (including the banking system) should provide adequate financial depth of the economy. On the other, it should support the creation of sufficiently large domestic demand (demand conditions). Operation on a large internal market effectively raises international competitiveness as evidenced by numerous studies. Not without significance is also interaction with government policies. It allows you to not only create the desired shape of the four basic elements of Porter's diamond but also to use existing opportunities in the environment.

The briefly presented impact of banks and the financial system as a whole on export competitiveness indicates their very important role in developing export capacity of others business entities. It is worth analyzing how the relationship between banks and exporters look for the Polish economy.

6. EXPORTING COMPANIES' RELATIONS WITH BANKS

In order to assess the possible impact of relations with banks on export competitiveness, the financing structure of exporting entities and the role of banks should be analyzed first (Table 1).

In the case of the smallest entities with revenues of up to 0.25 mn, the greatest dependence on banks is seen. As many as 33.5% of the companies in this group are 100% dependent on financing by banks, while at the same time 26.5% rely on short-term financing. Almost 21.7% of the companies use only non-credit financial services (100% financed without loans). At the same time, a large group of more than 20% of the population uses bank financing in the range of 25-74%. Simultaneously, 44.5% operate without bank short-term financing and even 57.7% without long-term financing.

Comparing the results to Class II, what can be seen is less dependence on banks. Only 24.5% rely exclusively on financing by banks (100% financing) , while 21.6% is dependent on credit financing by banks. Almost 30% of the subjects in this class operate without short-term credit financing by banks (with 44.5% in Class I), and 47.4% without long-term credit financing (57.7% for Class I). Approx. 70% of companies operate without financing through debt securities, while in Class I this share was over 80%. It should be noted that approx. additional 35% of entities are financed by bank loans at the level of between 25 and 74% (in the previous class, it was approx. 20%).

Less obvious are the results in Class III. Again, what can be observed is that the proportion of companies which are 100% dependent on financing through bank loans decreased to 21%

(21.6% in Class II and 33.5% in Class I), but this decrease was not so visible. Availability of long-term loan improved, indeed, because more than 48% of entities did not use short-term loans (with the share of almost 30% in Class II). The share of entities not benefiting from funding through debt instruments also increased to approx. 76%. In fact, the share of enterprises using exclusively non-bank financing (13.5%) also increased in Class II to 17.6% for those with income from 0.5 to 1 mn.

In Class IV, grouping entities with revenues of between 1 and 2 mn, a further decline is shown in dependence on bank financing. The share of those financed solely through bank loans rose to 23.1% thanks mainly to a substantial increase in the share of the entities that use exclusively long-term financing to almost 10% of the population. More entities do not use credit financing – for short-term loans, the share is still approx. 48% of the study population.

The class of companies with revenues of 2 to 10 mn saw a considerable decrease in dependence on banks. The fall to below 20% of the population of companies which are financed only by bank loans is clearly visible (to 17.6%). At the same time, the share of entities that do not use credit financing through banks remained at a level similar to the previous group.

Table 1.
Distribution of companies by debt structure

	0%	1-24%	25-49%	50-74%	75-99%	100%	All
Companies with turnover of up to EUR 250,000 (I)							
A (F.1.1)	121	18	25	20	6	72	262
B (F.1.2)	157	25	26	25	10	19	262
C (F.1.3)	225	21	9	4	-	3	262
D (F.1.4)	235	16	9	2	-	-	262
E (F.1.5)	129	23	16	25	10	59	262
Companies with turnover of between EUR 250,000 and 500,000 (II)							
A (F.1.1)	51	32	31	20	-	37	171
B (F.1.2)	81	22	34	27	2	5	171
C (F.1.3)	116	27	25	2	-	1	171
D (F.1.4)	119	35	14	2	1	-	171
E (F.1.5)	96	28	9	10	5	23	171
Companies with turnover of between EUR 500,000 and 1 mn (III)							
A (F.1.1)	72	22	15	16	2	21	148
B (F.1.2)	70	27	16	21	4	10	148
C (F.1.3)	113	22	8	3	-	2	148
D (F.1.4)	112	24	6	6	-	-	148
E (F.1.5)	68	22	7	14	11	26	148
Companies with turnover of between EUR 1 and 2 mn (IV)							
A (F.1.1)	25	5	8	6	1	7	52
B (F.1.2)	37	5	4	1	-	5	52
C (F.1.3)	39	6	2	5	-	-	52
D (F.1.4)	45	4	2	-	-	1	52
E (F.1.5)	26	3	1	8	4	10	52
Companies with turnover of between EUR 2 and 10 mn (V)							
A (F.1.1)	16	10	4	2	-	3	35

B (F.1.2)	20	4	5	3	-	3	35
C (F.1.3)	28	1	5	1	-	-	35
D (F.1.4)	28	5	2	-	-	-	35
E (F.1.5)	13	6	3	4	2	7	35
Companies with turnover of between EUR 10 and 15 mn (VI)							
A (F.1.1)	8	1	-	-	-	3	12
B (F.1.2)	8	3	-	-	-	1	12
C (F.1.3)	11	1	-	-	-	-	12
D (F.1.4)	10	2	-	-	-	-	12
E (F.1.5)	4	2	-	-	2	4	12
Companies with turnover of between EUR 15 and 50 mn (VII)							
A (F.1.1)	4	3	-	-	-	-	7
B (F.1.2)	3	4	-	-	-	-	7
C (F.1.3)	5	2	-	-	-	-	7
D (F.1.4)	3	4	-	-	-	-	7
E (F.1.5)	-	1	-	4	-	2	7

A - short-term bank debt (up to 12 months)
B - medium to long-term bank debt (12 months and over)
C- short-term debt securities
D - medium and long-term debt securities
E - other financial instruments (factoring, leasing, venture)
Source: Author's calculation

A small number of players in the last two classes makes it impossible to conduct a similar analysis. It should be noted, however, that a large number of entities do not use credit financing or debt instruments. This is puzzling and should be better explained by the selection criteria of banks, where the range of services and their competitiveness should play a key role.

In assessing the relationship between banks and exporters, the reasons for the selection of banks by the customer cannot be ignored. On the one hand, they show us the needs of Polish exporters in the field of financial services, but on the other whether these needs are satisfied by banks (Table 2)

Table 2.
Distribution of companies by key factors in the choice of the main bank

Factor	I	II	III	IV	V	VI	VII
A	181	128	106	38	31	11	7
B	89	93	55	23	17	4	4
C	85	100	74	31	16	5	3
D	72	87	51	15	12	5	3
E	49	66	40	18	13	7	3
F	45	57	44	21	11	5	1
G	44	54	45	17	15	3	2
H	41	55	50	20	14	5	1
I	15	24	25	7	6	2	-
J	15	4	13	3	2	1	-
All	272	171	148	52	35	12	7

I - Companies with turnover of up to EUR 250,000
II - Companies with turnover of between EUR 250,000 and 500,000

III - Companies with turnover of between EUR 500,000 and 1 mn
IV - Companies with turnover of between EUR 1 and 2 mn
V - Companies with turnover of between EUR 2 and 10 mn
VI - Companies with turnover of between EUR 10 and 15 mn
VII - Companies with turnover of between EUR 15 and 50 mn
A - bank offers competitive services and funding
B - bank offers efficient internet services
C - bank's lending criteria are clear and transparent
D - bank is conveniently located
E - bank has an extensive international network
F - bank offers also consultancy on strategic financial decisions
G - bank has a long-lasting relationship with the firm
H - bank has flexible procedures/not constrained by red tape
I - it was the Group's main bank
J- other not described
Source: Author's calculation

This draws attention to the fact that in all classes of the surveyed companies competitive financial services, including credit, were the most important. 66.5% of businesses with revenues of less than EUR 0.25 mn, and respectively 74.9% (EUR 0.25-0.5 mn), 71.6% (EUR 0.5-1 mn), 73.1% (EUR 1-2 mn), 88.6% (EUR 2-10 mn), 91.7% (EUR 10-15 mn) and 100% for the last class (EUR 15-50 mn), gave this answer. It follows that the larger the scale of SMEs, the greater the role of credits offered by cooperating banks. This may be due to the specific nature of small businesses where relatively small export contracts are financed from own resources or with the support of a partner.

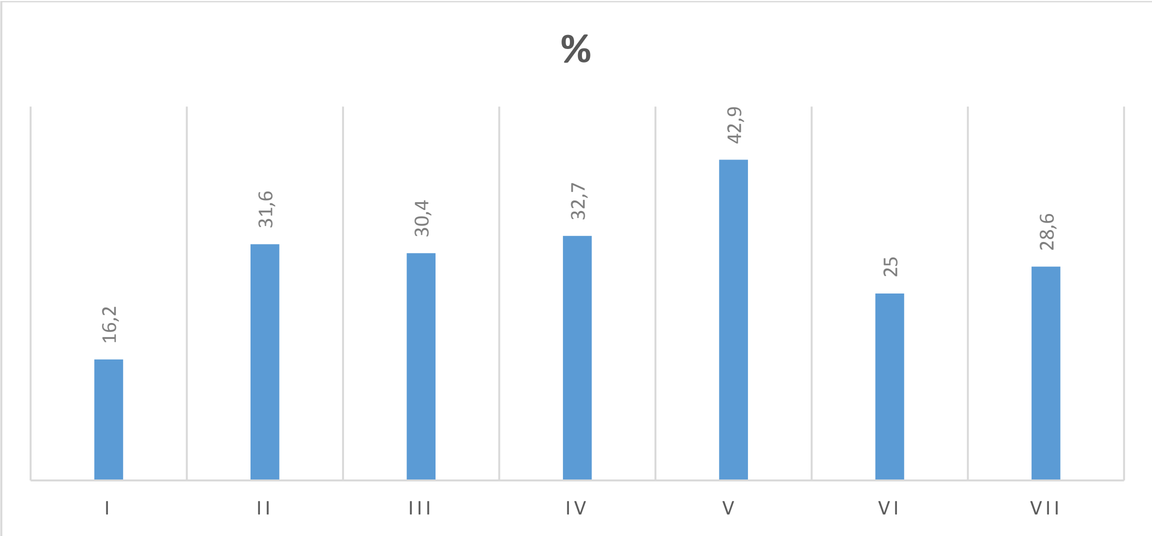
Significantly greater variation in response related to the second and third most important factors when choosing a bank. In Classes I (up to 0.25 mn), V (2-10 mn) and VII (15-50 mn) access to Internet services was in the second place –32.4%, 48.6%, 57.1%, respectively. For Classes II (0.25-0.5 mn), III (0.5-1 mn), IV (1-2 mn), clear and transparent criteria for lending were important –58.5%, 50%, 59.6%, respectively. This is a very important result indicating that the entities that have reached a certain scale of accountability and maturity have difficulty raising capital from the banking sector. This clearly shows the existence of the so-called Macmillan gap in Poland and may adversely affect the export capacity of these enterprises. At the same time, the second most important factor for companies in Class VI was the presence of the bank international network (58.3%). This shows high pressure on foreign export expansion, growth opportunities and the need for the support by banks with strong business relationships outside Poland.

Even greater diversity of responses related to the third factor. Interestingly, respondents who rank in the second place clear and transparent procedures in the next position showed access to Internet services. This emphasizes an even further aspect of the problems with obtaining credit financing. In addition, respondents indicated:

- bank location (distance factor),
- presence in international networks,
- availability of financial advisory services,
- flexible procedures/not constrained by red tape.

Very interesting is little pressure on the long-term nature of the relationship with the bank. It was not indicated in any class as one of the top three. The percentage of responses indicating the long-term relationship as a key factor was for each class as follows – I – 16.2%, II – 31.6%, III – 30.4%, IV – 32.7%, V – 42.9%, VI – 25%, VII – 28.6% (Figure 2).

Figure 2.
Long-term relations as a key factor of choosing partner bank (%)



Source: Author's calculation

Low loyalty to banks among the smallest companies with revenues of less than 0.25 mn must be understood through the prism of two elements: A relatively weaker offer of major banks for micro-enterprises and frequent acquisitions of smaller banks. And yet it is precisely small banks or even cooperative banks that are natural partners of companies in this class. Entities with revenues of more than EUR 10 mn can easily find a better deal in financial services, eventually acquiring capital on the stock exchange.

The previously described conditions translate into a desire to use the services of a larger number of banks (Table 3). In the case of small entities (Class I - up to 0.25 mn), the largest part of the study population (who responded to this question) collaborated with one bank. This was up to 42.3% and up to 78.8% for more than 2 banks. This is mainly due to the cost of banking services and low availability of financial services outside the key urban and economic centers, where such entities prevail.

Table 3.
Distribution of companies by number of cooperating banks

Class of companies	Number of cooperating banks						
	1	2	3	4	5 and more	na	All
I	94	81	37	7	3	50	272
II	31	56	24	9	4	47	171
III	27	43	27	11	9	31	148
IV	5	15	13	2	5	12	52
V	4	6	3	2	2	8	35

VI	1	2	4	3	2	-	12
VII	-	-	3	1	1	2	7

I - Companies with turnover of up to EUR 250,000
II - Companies with turnover of between EUR 250,000 and 500,000
III - Companies with turnover of between EUR 500,000 and 1 mn
IV - Companies with turnover of between EUR 1 and 2 mn
V - Companies with turnover of between EUR 2 and 10 mn
VI - Companies with turnover of between EUR 10 and 15 mn
VII - Companies with turnover of between EUR 15 and 50 mn
Source: Author's calculation

It may not surprise that with the increase in the scale of business activity the number of partner banks increass. For Classes II-V (0.25-10 mn), the model of cooperation with two banks dominated. This is 22% for Class V (2-10 mn) and 45% for Class II (0.25-0.5 mn). The last two classes are dominated by cooperation with three banks (33% for Class VI and 40% for Class VII).

For the majority of respondents, concentration of debt in the hands of one bank is closely linked to the number of cooperating banks. This concentration of debt shows the dependence of enterprises on the main partner bank (Table 4). By analyzing the data of respondents, one could say that these relations look good in the case of all studied classes.

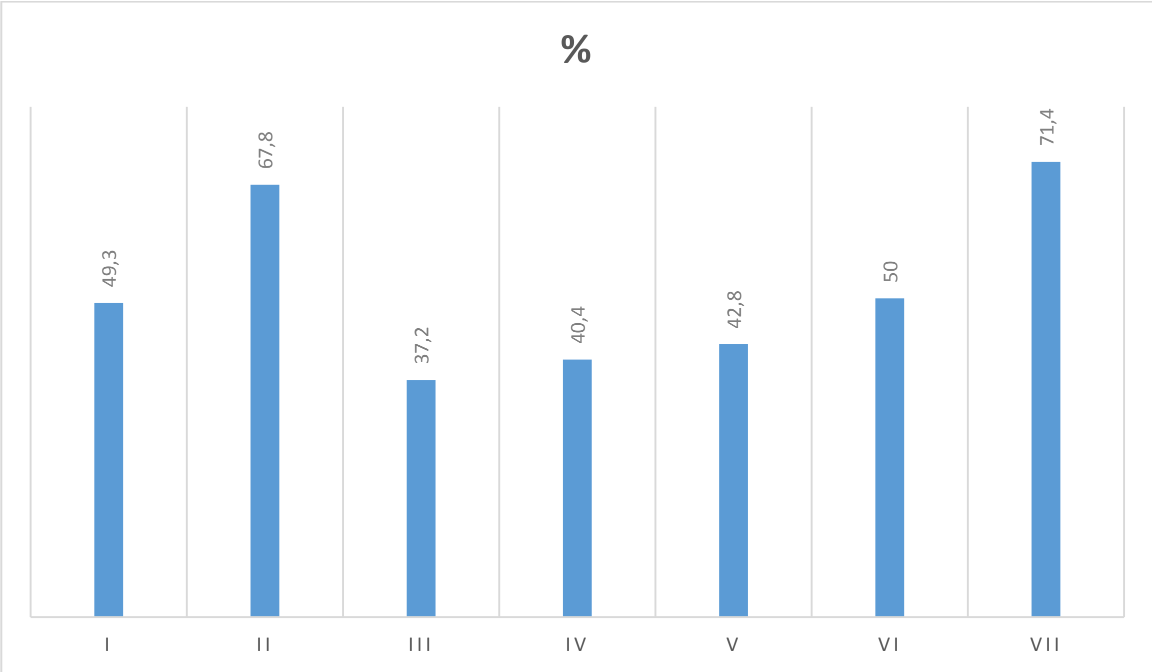
Table 4.
Distribution of companies by percentage of total bank debit held at main bank

Class of companies	Percentage of total bank debit held at main bank				
	0-24	25-49	50-74	75-100	All
I	134	39	39	60	272
II	116	27	14	14	171
III	55	35	34	24	148
IV	21	16	11	4	52
V	15	12	8	-	35
VI	6	1	2	3	12
VII	5	2	-	-	7

I - Companies with turnover of up to EUR 250,000
II - Companies with turnover of between EUR 250,000 and 500,000
III - Companies with turnover of between EUR 500,000 and 1 mn
IV - Companies with turnover of between EUR 1 and 2 mn
V - Companies with turnover of between EUR 2 and 10 mn
VI - Companies with turnover of between EUR 10 and 15 mn
VII - Companies with turnover of between EUR 15 and 50 mn
Source: Author's calculation

Most enterprises in each class indicate that the dominant bank accounts for less than 24% of the total debt owed to the bank. In the case of Class I, concentration of debt in the hands of the main bank at a level below 25% was indicated by 49.3% of respondents. It is 67.8% for Class II, 37.2% for Class III, 40.4% for Class IV, 42.8% for Class V, 50% for Class VI, and finally 71.4% for Class VII (Figure 3). On the contrary, almost complete reliance on one bank was indicated by 22.1% respondents in Class I, 8.2% in Class II, 16.2% in Class III, 7.7% in Class IV and 25% in Class VI. In classes V and VII, none of the respondents indicated this option. Summarizing, the company with larger turnover and a greater number of cooperating banks is less dependent on one bank's credit policy.

Figure 3.
Enterprises less dependent on the main bank (less than 24% of debt in the hands of the main bank) (% of the surveyed population)



Source: Author's calculation

In other words, this points to the ease in obtaining capital for larger entities, and at the same time their ability to become independent from a single bank. The largest concentration of debt in the hands of the key partner is noted for Class I (up to 0.25 mn) – up to 22% of the surveyed companies showed more than 75% concentration – and Class VI (10-15 mn), where almost 42% indicated the concentration of debt above 50%. It seems that these are the classes that should be subject to deeper analysis. It is these entities that, as long as they survive, will build export capacity of the Polish economy and its international competitiveness in the future.

7. Conclusions

The article assesses the relationships between 698 surveyed exporting enterprises with annual sales below PLN 50 mn and banks cooperating with them. The author is interested in the financing structure of business entities, the intensity of cooperation with banks measured by the number of banking partners, and the concentration of funding in the hands of a single bank, sustainability of this cooperation and its reasons. The entities have been divided into 7 classes according to their sales volume. The analysis of the responses found that:

1) The method of financing depends on the size of the entity; the bigger the entity, the more eagerly it reached for various financing using diverse financial services provided by banks

2) The larger the entity, the more likely it uses offers of more banks

3) Along with the size of the entity, the concentration of credit, i.e. the share of the parent bank, decreases. This demonstrates the players' growing negotiating position

4) Exporters rely on long relationships with the bank; where the entity is larger, the relationship tends to be longer

5) With the increase in the size of the exporting entity, the diversity of reasons for choosing the cooperating bank also grows

6) What matters most for companies is a competitive and diversified offer of the bank, transparency of lending criteria and access to the bank through modern means of communications – Internet service

7) The least important subject was the length of the relationship with the bank.

This should therefore indicate how large a role in building international competitiveness of Polish exporters is played by access to competitive, modern and diversified banking services

8. REFERENCES

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