Aspects regarding financing process of European Union enterprises

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The importance of financing decision of an economic agent

The financing decision of an economic agent represents the choice of the most efficient source of financing for that company from all the existing financing sources. As an old Irish proverb said "It is crazy the one who does not take the money The proper development of the financing and fundraising strategies, knowing the possible alternatives and fundraising are vital tasks to the success and the survival of all businesses. The problem is combining these sources of financing in order to minimize the costs and maximize the results.

– The lack of capital at the proper time and at appropriate size can lead not only to loss of business opportunities, but also to endangering the market position or even to bankruptcy.

– The financing problems are issues of vital importance because solving them condition the business survival, its prospects of development, its present and future performance, the owner's and the managers autonomy.

The sufficient access to finance is essential for the economic growth of the companies within the European Union as it helps to promote entrepreneurship, competition and innovation. In this context, the role of entrepreneurship education for development / improvement activities of multinational companies has become fundamental. Competence, tacit or explicit knowledge, intellectual capital are natural demands of the multinational companies and this means openness to new, to change, promotion of innovative projects, lifelong learning. All individuals will have to acquire lifelong learning skills, enabling that is offered to him", the financing decision requires the best use, by the firm, of the money which are given to it, the best use of the funds provided by various financial or non-financial institutions.

The premises from which we started to carry out the analysis:

– them to adapt to change. Also, improving the definition and transparency of professional qualifications, their recognition and validation of non-formal and informal employment to respond to new needs, key competences and future expertise requirements are requirements that ensure flexibility and adaptability of the labor mar-

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ket. The companies, over time, have financed their activity by appealing to various financing sources depending on the characteristics of markets in the national economy at that time.

Today, the European Commission is working with EU Member States to improve the access to finance for companies across Europe. For example, to facilitate growth and development of SMEs, the European Commission has established a comprehensive system of policies and instruments to support SMEs through the most appropriate types and sources of financing specific to different stages of their life.

Many papers approach the financing decision of a company by analyzing the sources of financing and the factors that influence the choice of one of these sources, but what we want to achieve through this paper is a concrete analysis of the financing sources used by member countries of the European Union. Based on this analysis, we proposed to make a comparison between countries and how are financed the firms on each market.

Aspects regarding the main financing sources preferred by enterprises in the European Union

To actually see which financing sources are preferred by the companies in the European Union and whether they have appealed more to external financing or internal financing, we will analyze the data obtained in the study conducted by the Flash Eurobarometer no. 271 which deals with "The access to finance of the firms from the European Union" in the six months preceding the study (the period between January and June 2009). This study considered around 9.000 firms from the European Union, Croatia, Iceland and Norway.

The sample chosen for this study includes the following four types of firms:

- micro-enterprises (with 1 to 9 employees),
- small-enterprises (with 10 to 49 employees),
- medium-enterprises (with 50 to 249 employees) and
- large enterprises (with 500 employees and more).

The survey also excluded companies from the following sectors of activity: agriculture, fishery, public administration, financial services, household activities and extra-territorial organizations.

The survey was conducted on the basis of a questionnaire aplied to the companies that were part of the representative sample and from this survey was obtained the following results:

- 31% of the companies have used both external financing and internal funds;
- 28% of the analyzed companies used only the external financing in the analyzed period;
- 16% of the companies used only the internal funds.
- one quarter of the managers interviewed said they had not used any financing source in the period under review.

The companies from different countries have different financing structures. The optimal financial structure of the enterprise must establish a relationship between debt and equity financing so that financing costs to be as low as they can. This depends on:

- the objectives of growth of the company,
- the expected return and
- the risk level that the company agrees to assume.

The situation for different countries from EU is presented in the figure no. 1:

a) Companies in Croatia have used a combination of internal funds and external sources of funding in the lowest proportion in the analyzed period (5%), while this percentage reached 54% in Iceland.

b) The enterprises in Lithuania (60%) and Portugal (54%) were the most that have not used any source of funding in the period under review while the fewest enterprises that have not used any source of funding have been met in Iceland (8%) and Ireland (6%).

c) The proportion of respondents who said that their company has used only internal funds in the last six months, ranged from 3% to 4% in Croatia and Cyprus to 47% in Latvia.

d) In Finland, Bulgaria, Luxembourg and Slovenia, almost one third (32%–34%) of companies have used only internal funds. The companies from Croatia and Cyprus were not only among those who din not used internal funds but also among those who used only external financing during the period analyzed (43% and 41%), similar to the situation in Poland and Estonia (41% and 42%).

e) The companies in Bulgaria, Latvia and Slovenia have used in the lowest proportion only the external financing (with a proportion between 9% and 12%).

f) In Romania we see that 12% of the companies have used only domestic funds, 35% have used both internal funds and external financing, and only 24% have used only external financing.

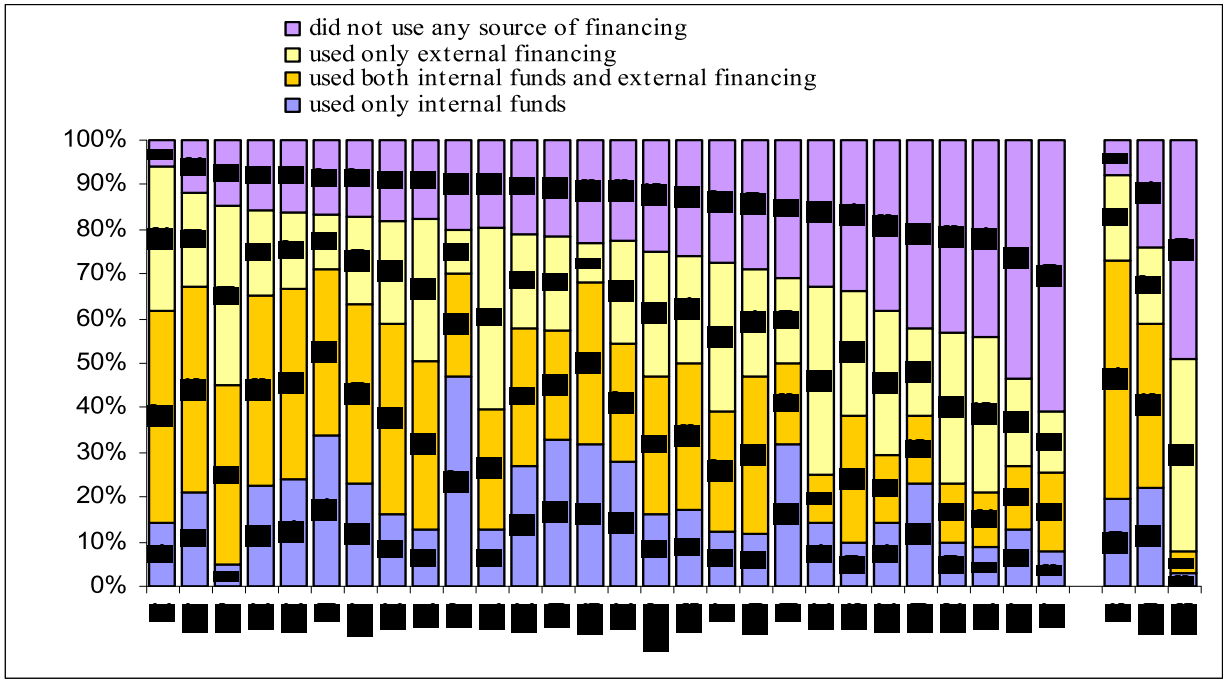

Figure no. 1: The financial structure of enterprises in the European Union, Croatia, Iceland and Norway (using internal and external funding - in%)

Source: Processing after data from Flash EuroBarometer, No 271, September 2009, Access to finance: Analytical Report

g) Almost half (47%) of managers in the EU have said that they have used internal funds in the period under review, to finance their operations (as seen from above - some have used only internal funds, while others have used these funds in combination with external financing).

h) In addition to internal funds the companies have also used external sources for financing their operations, totally 58% of companies have used at least one external source of debt financing in the last six months. The most popular source of financing was the bank loans: 30% of the enterprises used bank overdraft facility or line of credit and 26% had received a bank loan.

i) Business debts may also be covered from public resources or resources from a friend or family member: 10% of respondents mentioned that they applied to grants or subsidized bank loans and 7% mentioned "other sources ". A small number of managers (approximately 1%) said they had used a subordinated loan, a participatory loan or similar financing structures.

j) Approximately one quarter (23%) of respondents said that leasing, factoring, hire purchase were one of the source of financing used and 16% said they had used trade credit as a source of short term financing. Very few enterprises (1%) have issued debt securities during the period under review, but 11% of managers have found this type of financing as irrelevant to them.

k) The issuance of securities or foreign investment capital was mentioned by 2% of managers as one of the sources of external financing that was used during the research period. More than one-tenth (13%) of managers have found this type of financing relevant when they were asked to explain the financial structure of their business.

l) Small businesses (with less than 10 employees) were those who used only their own funds in the analyzed period or have not used any source of financing in that period. It was found that the more a company has more employees the more it appeals to a combination of internal funds and external resources used to finance their operations, investments, etc.: while 48% of large companies (with at least 250 employees) had a financing structure based on internal funds and external financing resources, this percentage dropped to 30% for small enterprises. The proportion of firms that used only external financing in the period under review did not seem to depend on company size.

m) If we analyze the situation in terms of turnover to state that:

– Four of the ten companies with an annual turnover of more than 50 million euro have used both internal funds and external financing resources, in the period under review, while 15% of these companies have used only external financing.
– If we talk about a smaller turnover the proportion of enterprises that have used internal funds and external financing was only slightly higher than the proportion of enterprises that have used only external financing resources (for example, 35% to 34% for companies with an annual turnover between 10 million euro and 50 million euro).

n) A similar observation could be made when we analyze different sectors of activity: industrial enterprises have used in a higher proportion the internal funds and external financing resources than the proportion in which they appealed only to exter-

nal financing (35% vs. 24 %), while in the case of construction the difference was smaller: 32% to 31%.

o) Newly established businesses (active on the market for more than two years) have appealed in a higher proportion to internal funds to finance their operations (22% compared with 14%–17% in the case of older firms) and in a smaller proportion to external financing (24% vs. 27%–29% in the case of older firms on the market).

p) Unsurprisingly, the companies that have reported a steady turnover in the last three years have been those who have not used any source of financing in the period under review (27% vs. 16%-21% for other businesses). A similar picture was observed when we examined the financial structure of firms based on changes in their financial situation during the analyzed period.

When we analyzed data obtained in this study, we considered that the situation presented was recorded during January to July 2009, a time when the current financial crisis has manifested all over the world. So, the way of financing of the enterprises in the European Union in the six months analyzed are actually the financing sources that they preferred in the context of the financial crisis.

In addition to all other constraints that the enterprises face to finance their activities, the current financial crisis has brought new problems. Financial markets are dominated by uncertainty and firms access to finance is more difficult, primarily due the cutdown of lending from the banks.

Conclusions

The financing decision at microeconomic level is significantly influenced by how the economic mechanisms at regional, national and even global level work. The enterprises now are operating in a complex environment. Taking into account the particularities of the economic and financial environment in the context of analyzing the influence of these sides over the financing decisions at the microeconomic level can not ignore factors such as inflation, exchange rate movements, and changes in interest rates in the economy, the current financial crisis and many other factors.

The size of capital need of the firm varies from company to company and within the same company it depends on the moment or on the situation of the firm. If, for example, the company is in a period of growth, the capital needs will be greater than in a normal period due to the need for additional funds to support sales.

From that presented above we see that the financing of the firms in the European Union depends on the country in which the firms activate and especially on some other factors as: firm size (depending on number of employees), the turnover, the sector of activity of the company.

Whatever these elements are, we have seen, however, that of all the considered firms the most have used, in the six months analyzed, in a higher proportion the financing from domestic funds but also have used the financing from banks. The choice in a higher proportion of the own resources can be justified in terms of the global economic downturn, that is a cause of the current financial crisis. In the context of the market uncertainty the firms turn to the safest sources of funding and that is the internal funds.

Instead, the resources from banks play an important role in financing of the firms because many of them does not have sufficient internal funds to finance their work, thus they resort to external resources. From the external resources are preferred those that come from the banks because the European Bank for Reconstruction and Development provides funds to banks from the European Union countries to support development of Small and Medium sized Enterprises as well as those start-ups.

We observe that the financing of a company is a matter of choice. To choose, in terms of funding, means to choose between several forms of financing the one that is most suitable to the firm. The binomial own funds– borrowed funds is the traditional form of choice in financing the enterprise.

The SME sector has the highest rate in all economies in the European Union, contributing to the creation of added value and creates new jobs, however, face, most often difficulties in obtaining capital or credit especially in start-up.

Economic situation of small and medium enterprises is quite bad. This is due to more difficult access to finance, high requirements for reporting / reporting or double taxation (income tax and tax on dividend). SMEs, particularly micro businesses were most affected by diminishing access to finance, banks are perceived as presenting a higher credit risk larger firms. SMEs have generated most of the bad loans, the rate exceeding 10%.

The biggest problem currently facing small and medium enterprises due to the above problems, when seeking a loan for working capital is no collateral or insufficient value to them. In the case of investment credit, companies must have a sum of money to participate in investment, but also guarantees to bank borrowing.

Even companies who have guarantees present problems with security because their market value has declined since 2009. FNGCIMM President says that "as long as banks and businesses do not understand that the risk should be shared and not thrown in another court, the SME sector lending will not resume. The SME sector wants to make profit, but you must understand that banks seeking the same thing."

Alternatively, specialists argue that "banks should provide the alternative of European funds and loans for financing companies.

Among the problems faced at present by small and medium enterprises are increasing costs on loans and weak capacity of their return. In addition to funds allocated from the national budget and those obtained through loans, small businesses can get grants through post-accession EU funds".

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Wybrane aspekty procesu finansowania przedsiębiorstw ze środków Unii Europejskiej

Streszczenie

Abstract: Głównym celem badań było określenie źródeł finansowania preferowanych przez przedsiębiorstwa w Unii Europejskiej. Analiza dotyczyła różnych krajów. Określono, jaka część przedsiębiorstw z krajów UE korzysta z własnych środków na finansowanie swojej działalności, a jaka część z zewnętrznych form finansowania.

Przedstawiono źródła finansowania preferowane przez grupy krajów: rozwiniętych i wschodzących. Określono różnice w finansowaniu.

Słowa kluczowe: przedsiębiorstwo, źródła finansowania, środki Unii Europejskiej