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## Sources of Financing Small and Medium-Sized Enterprises: Case Studies in Poland

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**Abstract:**

**Purpose:** The article presents selected research results concerning the financing of small and medium-sized enterprises in Poland. The research subject was to gain extensive knowledge of selected sources of financing for SMEs operating in Poland. By learning about the methods of using the funds obtained, as well as identifying the most important features that guide the entrepreneur when choosing the financing sources available on the market.

**Approach / Methodology / Design:** The study used PAPI and CAWI techniques. The survey was conducted at the turn of 2018 and 2019. The research sample included 510 entities.

**Findings:** Entrepreneurs from the SME sector in Poland do not fully use the potential of available financing sources. The authors argue that this state of affairs may be affected by insufficient knowledge about available funding sources.

**Practical implications:** The study showed a need to raise awareness among entrepreneurs about the available financing sources by indicating the role that government institutions should play in this process.

**Originality/Value:** Research attempts to fill a gap in the literature on the subject. These studies can help understand the motives behind selecting specific sources of financing by SMEs operating in Central Europe.

**Keywords:** Small and medium entrepreneurs, financing, entrepreneurship, business environment, economic development.

**JEL Classification:** G23, L11, L26, O1, O4.

**Paper Type:** Research article.

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## 1. Introduction

Many authors point to the constant changes in the shaping of national economies and economic systems worldwide (Schumpeter, 1954; Porter, 1990; Witt, 1993; Wennekers and Thurik, 1993;). This process is associated with min. Ubiquitous globalization, technological development, political changes, evolution in societies' thinking, and other factors are widely described in the literature on the subject (Williamson, 1986; Cuervo *et al.*, 2007; Cumming and Hornuf, 2018). The processes involved in adapting to the conditions of a changing world have led to many concepts or institutions not seen in previous years. One of the terms related to civilization's development is the concept of "entrepreneurship" and derived terms (Casson *et al.*, 2006). The literature on the subject indicates many entrepreneurship theories intended to explain the essence of this phenomenon (Bull and Willard, 1993; Alvarez and Busenitz, 2001). They are rooted in various scientific disciplines such as economics, management, psychology, sociology, or anthropology. On this basis, the authors support the thesis that when considering the concept of entrepreneurship, this phenomenon should be taken into account in an interdisciplinary approach (Ripsas, 1998).

The available literature is dominated by the view that the small and medium-sized enterprises sector is the driving force of the economy and entrepreneurship's essence (Van Praag and Versloot, 2007). Many authors (Bianchi *et al.*, 2010; Hossain, 2015; McCann and Ortega, 2016; Thalassinou and Thalassinou, 2018) emphasize that entrepreneurs' innovation and flexibility from this sector and the fact that small and medium-sized enterprises have a positive impact on the dynamics of economic development through min (decreasing unemployment, reviving the economy, supplementing the market with products and services) mean that the state's economic policy should focus on developing enterprises in this sector (World Bank, 2010). At this stage of the discussion, the authors agree with the thesis promoted in the literature that the development and further existence of a market entity from the SME sector in most cases depend on access to sources of funding (Beck and Demirguc-Kunt, 2006; Ayyagari *et al.*, 2011; Chakravarty and Xiang, 2013 ).

An analysis of the available literature has shown that there are many publications related to both the issue of entrepreneurship and the description of sources of financing for the small and medium-sized enterprise sector (Berger and Udell, 1998; Beck *et al.*, 2005; Lopes *et al.*, 2015; Cole and Sokolyk, 2016). However, in most cases, they refer to Western European countries (Holton *et al.*, 2013; Beck *et al.*, 2008b) or developing countries (Info/World Bank, 2016; IFC, 2017; Godke Veiga and McCahery, 2019). However, no publications describe the SME sector about the economies of Central European Countries such as Poland.

Available reports (OECD, 2019) and studies of the European Commission (European, 2017) indicate that the Polish economy is one of the most dynamically developing economies of Central Europe (Ministry, 2018). At this stage, it is worth emphasizing

that the SME Sector (micro, small and medium-sized enterprises) constitutes the overwhelming majority of enterprises in Poland - 99.8%. Among them, the most numerous group (96.5%; 2.0 million) are micro-enterprises. The share of small enterprises in the structure of Polish enterprises is 2.6% (53.8 thousand), medium - 0.7% (15.3 thousand), and large - only 0.2% (3.6 thousand) (Ministry, 2018). Thus, both the small and medium-sized enterprises' position and role in the Polish economy are already significant and well-established (Matejun, 2014; Gwizdala, 2017).

Therefore, this article has many important practical implications, both political and economic. The article was organized as follows. Chapter 2 provides a detailed description of the purpose, scope, and research method used to answer research questions. Chapter 3 describes the results of experimental research and interpretation. In turn, Chapter 4 discusses the results achieved by the authors and presents the conclusions - indicating their limitations in the perspective of research conducted so far and indicates future research directions about the sector of small and medium enterprises and their sources of financing.

## **2. The Scope and Methods of Research**

The research's main goal was to gain broad knowledge about selected sources of financing by entrepreneurs operating in Poland about the sector of small and medium enterprises. It was important to obtain data on the types of financing chosen by enterprises and know the level of knowledge about the sources of financing available on the market. Another goal was to learn how to use the acquired funds. The study was also used to learn the most important features an entrepreneur uses when choosing a financing method. The study also showed the assessment of entrepreneurs regarding the availability of specific financing sources and explained why entrepreneurs do not use specific forms of financing of enterprises available on the market.

An analysis of the available literature has shown that there is no publication related to this research topic. Thus, the presented research attempts to fill gaps in the literature on the subject while constituting the attitude for further considerations on the subject of entrepreneurship, motives of entrepreneurial behavior, and sources of financing for small and medium enterprises in the countries of Central Europe.

The survey was carried out in the year at the turn of 2018-2019. As part of the study, PAPI (a classic method commonly called 'paper and pencil') and CAWI (interviews conducted via the internet) were used. Surveys specially prepared for this purpose could be completed and submitted throughout the entire period at the University of Economics Faculty of the West Pomeranian University of Technology in Szczecin street. Żołnierska 47. Also, the survey form enabling it to be completed electronically was available on the faculty website. The layout of the results presented reflects the completed surveys. The study consists of substantive remarks and charts containing the results of the answers to the questions contained in the form sheets. The survey was anonymous, which allowed the unfettered expression of respondents' opinions.

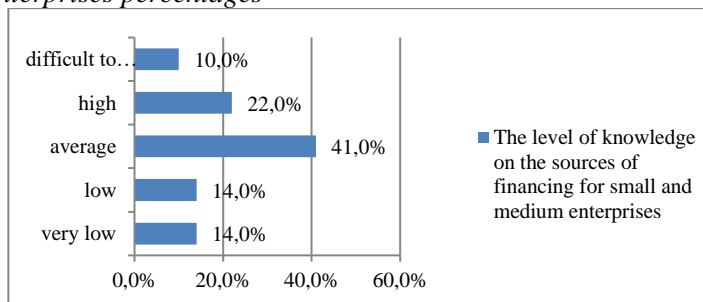
The respondents were provided with a questionnaire that contained 15 questions (the answer from 9 of them was presented in the article) related to entrepreneurship issues in the sector of small and medium enterprises in Poland. Selected closed-ended questions did not consider the answer "other," which were not included in the catalog of answers proposed by the study's authors. Asked questions include assessment of the level of knowledge on the sources of financing for small and medium-sized enterprises, the source from which they obtain information on the sources of financing available on the market, plans related to financing activities in the next three, and the level of knowledge on the sources of financing (multiple choice questions). Detailed questions concerned the destination of funds obtained in the future, an assessment of the availability of specific sources of financing, and an indication of the reasons why entrepreneurs did not use specific sources of financing (3 levels low, medium-high).

During the research, 510 completed questionnaires were obtained. 51 questionnaires were completed in electronic form via the survey placed on the website. The remaining ones were filled in on paper. The data obtained from the research after entering into the spreadsheet were analyzed. The data are presented in the simplest form in numerical and percentage form (rounded for greater clarity of arguments). They were subjected to statistical and substantive analysis.

### 3. Results

At the first stage of the survey, respondents were asked to assess the level of knowledge they had about financing sources for small and medium-sized enterprises. Figure 1 below shows the information obtained.

**Figure 1.** *The level of knowledge on the sources of financing in the sector of small and medium enterprises percentages*



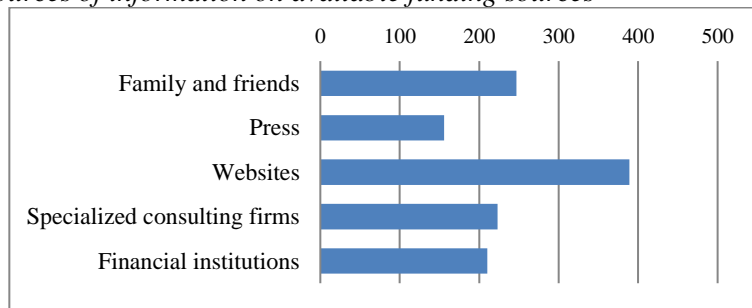
*Source: Own work.*

Most respondents assessed their level of knowledge about financing sources for small and medium enterprises at a medium level (41%). 21% of respondents thought they had a high level of knowledge regarding-sources of financing. In contrast, studies have shown that the respondents' knowledge is low and very low. At 14%. 10% of the surveyed people were unable to determine the level of their knowledge about the sources of financing for small and medium enterprises.

At the next stage, the surveyed entrepreneurs were also asked about the source from which they obtain information on the sources of financing available on the Polish market. The answers are shown in Figure 2.

Data analysis indicates that they most often use the internet to obtain information on available financing sources. This form was indicated by (389 respondents). Almost every second respondent (247 respondents) indicated that he obtains information from family or friends. Respondents at a similar level selected financial institutions, and specialist advisory offices (223, 210). Information on available funding sources sought in the press indicated (156) respondents.

**Figure 2.** Sources of information on available funding sources



*Source:* Own work.

At the next stage, the respondents were also asked to specify their knowledge about individual sources of financing, Figure 3.

Based on the data obtained, it can be concluded that the respondents have a high level of knowledge about financing sources such as owners' contributions, retained earnings, loans from family and friends, loans, bank credit, leasing, subsidies. On the other hand, entrepreneurs from the small and medium-sized enterprises sector have a medium or low level of knowledge related to financing obtained from acquiring a shareholder, over-the-counter market, venture capital, business angels, factoring, and franchising.

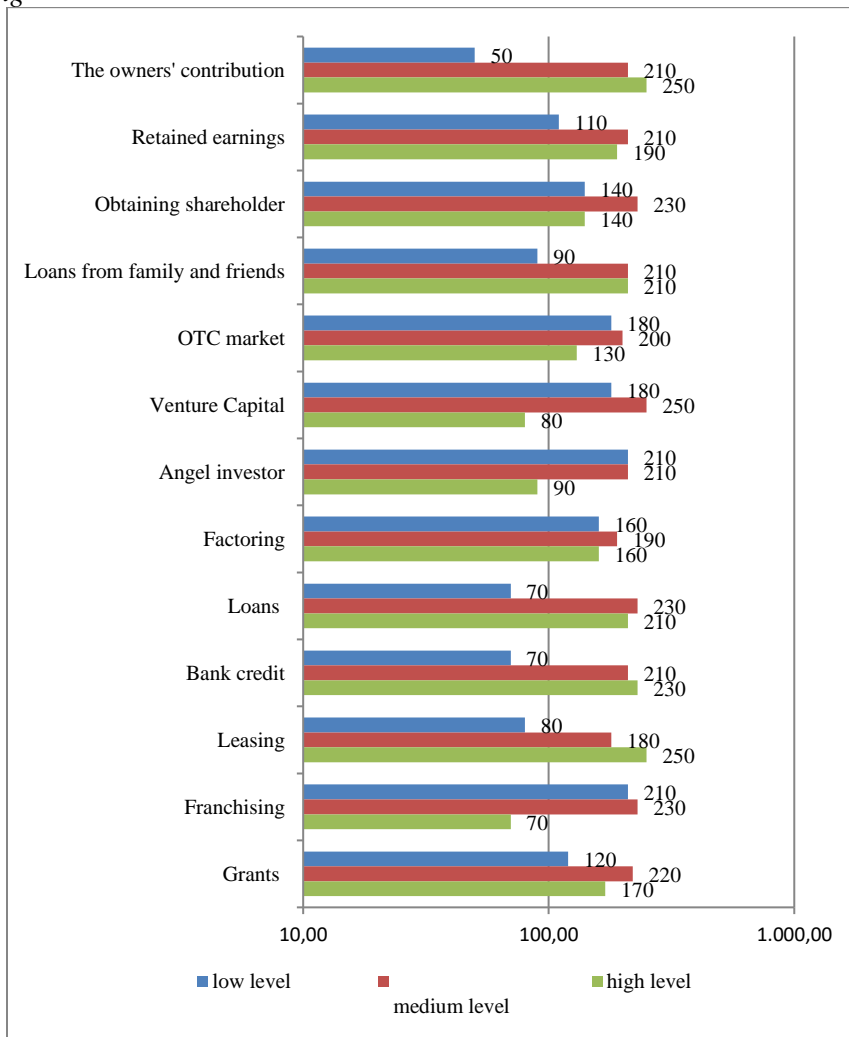
At the next stage of research, the focus was on analyzing the types of financing sources used by enterprises from the SME sector (Figure 4) and identifying the purpose for which the funds were allocated (Figure 5).

Theist study enterprise of SME sector most often used the own contribution of the owners. Entrepreneurs indicated bank credit, loans, and leasing as another source of financing for the SME sector. About 60 entrepreneurs used franchising, and about 20 venture capital financing, about 36 surveyed people used factoring, similarly to financing from a source of business angels. The funds obtained in this way are primarily intended for financing current operations, the purchase of equipment and

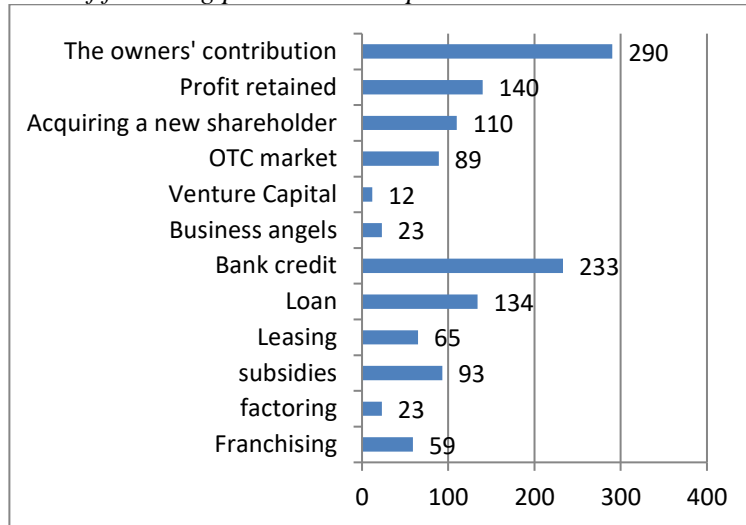
machinery, and the purchase of means of transport—the smallest number of people allocated funds for research and development investments.

The respondents also answered questions regarding plans related to financing activities in the next three years, Figure 6, and the purposes for allocating the funds raised Figure 7.

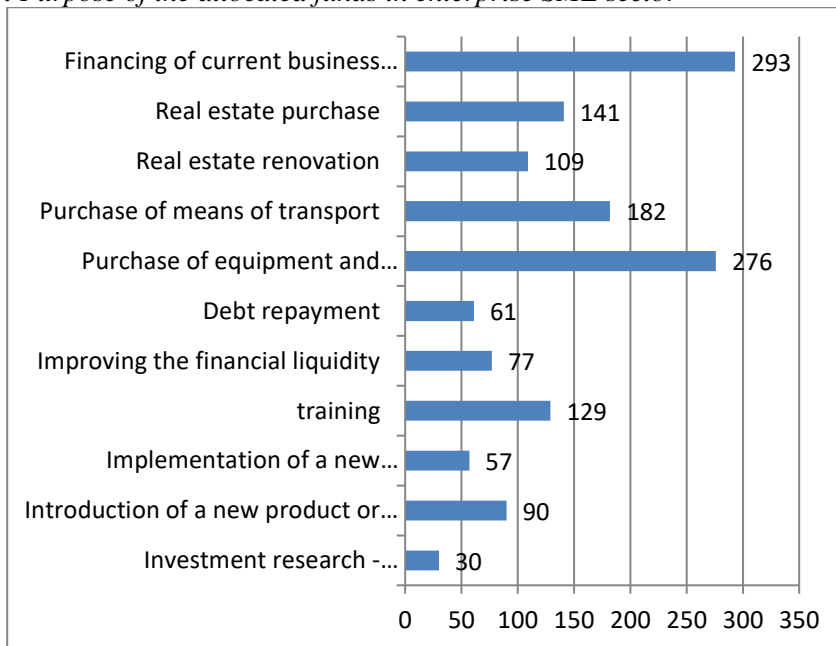
**Figure 3.** Level of respondents' knowledge broken down into a specific source of funding



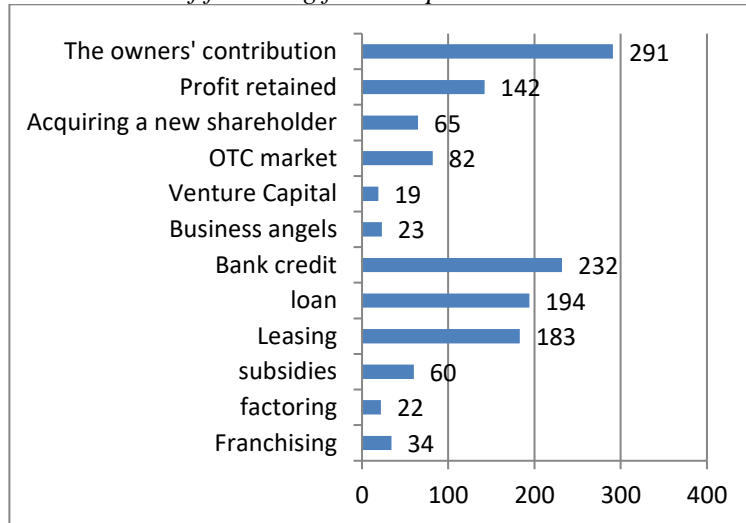
Source: Own work.

**Figure 4.** Sources of financing present in enterprises SME sector

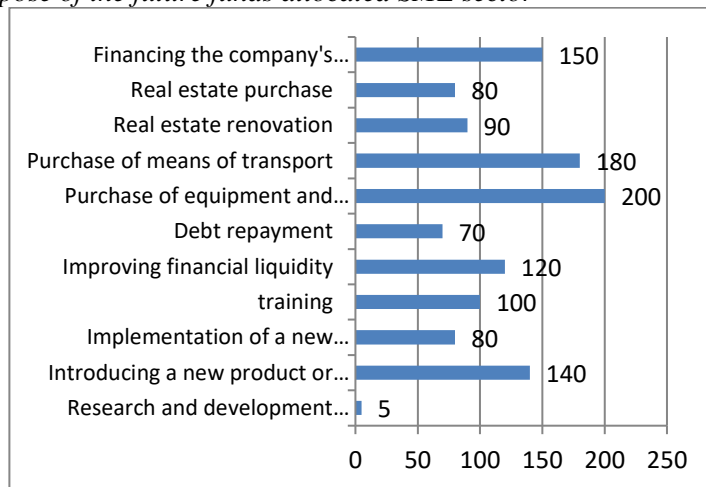
Source: Own work.

**Figure 5.** Purpose of the allocated funds in enterprise SME sector

Source: Own work.

**Figure 6.** Planned sources of financing for enterprises SME sector next three years

Source: Own work.

**Figure 7.** Purpose of the future funds allocated SME sector

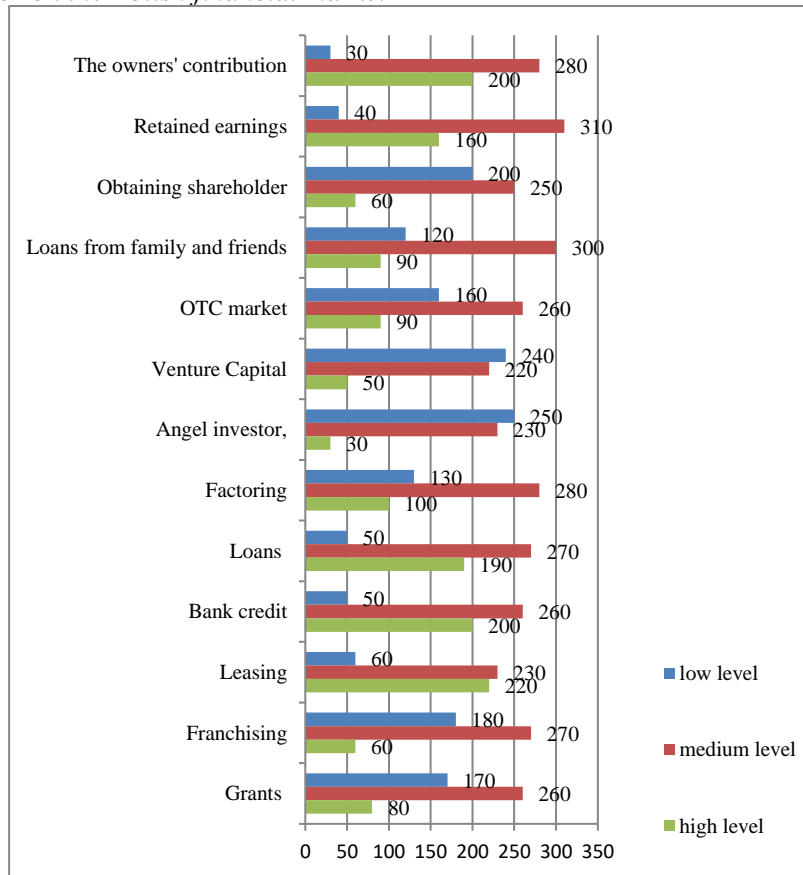
Source: Own work.

Based on the answers obtained, it was found that entrepreneurs usually plan to sign a leasing contract and use a bank loan. A large number of respondents plan to obtain funds in the form of grants. The entrepreneurs plan to allocate the acquired funds for the purchase of equipment and machinery and the purchase of means of transport and finance the company's current operations and launch a new product or service. Enterprises indicate a low level of funding involved in research and development.



In the next part of the survey, respondents were asked to assess the availability of specific financing sources on the Polish market for entities from the SME sector. The obtained answers are presented in Figure 8.

**Figure 8.** Assessment of the availability of specific financing sources for the SME sector on the Polish financial market



*Source: Own creation.*

Based on the answers obtained, it should be stated that respondents, in most cases, will assess the availability of specific sources of financing according to respondents at the average level. According to the respondents, the most difficult financing source is venture capital, business angels, and acquiring a shareholder. Among the mentioned types of financing sources, entrepreneurs believe that high availability concerns the owners' contribution, loan, bank loan, leasing.

#### 4. Discussion and Conclusions

While much research at the national level and the microeconomic focused on the importance of small and medium-sized enterprises in economic growth and the impact

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on the process of industrialization (Alvarez and Busenitz, 2001; Beck *et al.*, 2005), the main goal of this research was to gain broad knowledge about selected sources of financing by entrepreneurs operating in the sector of small and medium enterprises in Poland. Based on the presented research, it was found that Polish entrepreneurs from the small and medium-sized enterprises sector do not fully use the potential of various forms of financing. Research has shown that this condition is affected by the average level of knowledge of entrepreneurs from the small and medium-sized enterprises sector in the scope of available financing sources on the Polish market. It is worth noting that the internet remains the primary source of information on financing.

The authors agree with other researchers that in this context, the role of institutions functioning in the state regulating access of SMEs to financing sources is vital (Berger and Udell, 1995; Beck *et al.*, 2008a; Chakravarty and Xiang, 2013; Oztuck and Mrkaic, 2014). However, along with the institution-building, one should continue to search for ways to expand entrepreneurs' knowledge in this topic. The authors suggest that entrepreneurs' ignorance in the further perfect time can lead to blocking the opportunities and path of development of enterprises in the SME sector. In this matter, the conclusions of the study are confirmed by other authors. The same applies to choosing the most popular financing sources for this enterprise (Beck *et al.*, 2011; Cole and Sokolyk, 2016).

However, in the dispute with other research authors in this matter, indicating innovative sources of financing remains (Cumming and Hornuf, 2018; Divakaran, *et al.*, 2014; Kgoroadria *et al.*, 2018). For example, one of such innovative sources of funding indicated in the literature is factoring. (Klapper, 2005; Lekkakos and Serrano, 2016). In Poland, this form of financing is still not recognized in the sector of small and medium enterprises. However, it should be noted that comparing the selection of individual sources of financing in the SME sector in individual countries would be a logical mistake given the other economic conditions prevailing in these countries.

This document uses data from a survey of small and medium-sized enterprises on a specific research sample. Therefore, a much broader analysis is needed, especially using time series variability, microeconomic data, and case studies relating to specific industries and market sectors. Further research in this topic should focus on issues regarding the definition of motives and criteria that determine the selection of specific sources of funding by entrepreneurs and barriers, and the role of government institutions in this process.

Summarizing the presented research on the sources of financing for the small and medium-sized enterprise sector in Poland, the authors state that they do not fully exhaust the issue but attempt to signal the complexity of the research topics presented. Certainly, this subject requires further analysis and research in order to understand both the essence of entrepreneurship and the motives determining the selection of individual sources of financing by small and medium-sized enterprises operating on

the Polish financial market (a country in Central Europe), but also by those entities that run their own operating in the European Union.

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