

SECTORAL AND INTERNATIONAL DIVERSITIES IN THE PERCEPTION OF BANK FINANCING: EVIDENCE FROM SLOVAK AND CZECH SMES

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***Abstract:** Banks' approaches in SMEs financing, being aware of loan conditions and transparency of credit terms are significant facts to improve ability of SMEs to manage their financial and credit risks and to reduce obstacles in their bank credit access. In this context, the research not only aims to compare different sectors in country level but also purposes to make comparison between countries that SMEs' operate in same sector, regarding their perceptions of these facts. 972 Slovakian and Czech SMEs are analysed by Chi-square and Z score statistics to find the differences between selected groups and individual responses. The results of the research confirm that more trade firms positively perceive the selected facts than service firms in Slovakia, however, aspects of Czech service and trade firms do not differ. Moreover, Slovakian trade firms are more agree that they have knowledge about loan conditions than Czech trade firms do. On the other hand, more Slovakian firms negatively perceive banks' approach to them than Czech SMEs. Regarding to entrepreneurs' knowledge about lending terms, no significant differences exists between the Czech and Slovakian service firms. Furthermore, loan conditions are not transparent for more Slovakian service firms than Czech service firms.*

***Keywords:** SMEs, Bank financing, Slovakia, Czech Republic, Loan Conditions.*

***JEL Classification:** G21, L26, O16.*

Introduction

Contributions of Small and Medium-sized Enterprises (SMEs) to value addition of economies, job creation and economic growth of countries cannot be underrated. According to SAFE 2016 Survey, 99.8% of non-financial firms are SMEs in EU-28. SMEs are flexible and quickly adapt to new demands of their clients (Ključnikov et al., 2016). In order to launch a business and enlarge it, entrepreneurs need financing (Wangmo, 2015). Although many financial obstacles exist in bank financing for SMEs, bank credit still the major external resource for them (Irwin and Scott, 2010).

The obstacles that SMEs face are related with their lack of financial resources, collaterals, assets, and abilities to manage their credit and financial risks. Most of SMEs have high transaction costs, a low amount of cash flows, high risk premiums, underdeveloped relationships with financial institutions (Ardic et al., 2012), bad credit reputation and track records (Beck et al., 2006), high lending rates (Beck et al, 2008), and opaqueness (Berger and Udell, 1998). Moreover, government regulations (Bougheas et al., 2006), structure of banking system (Berger and Udell, 2002) and financial sector (Osano, and Languitone, 2016) and characteristics of owner are other determinant factors in their financial risks that include the process of getting loans and credit risk (Belas et al, 2016). In this regard, being aware of loan conditions, banks approaches on lending and transparency of the lending terms that banks provide to SMEs are important factors to reduce the financial and credit risks of SMEs.

Some studies analyse the differences between age, education level, gender (Belás et al., 2016) size (Belás et al 2015a; Tolbaa et al., 2016), legal structure of SMEs, (Tolbaa et al., 2016) and being informed about credit conditions. Regarding to transparency of loan conditions, Belas et al. (2015a) and Sobekova-Majkova (2011) investigate the size of firms. Kljuchnikov and Belas (2016) also examine impacts of gender, age, education level on the perceptions of banks' approaches. Corresponding to differences between countries, Ključnikov and Sobeková–Majková (2016) observe gender, experience and education of the Czech and Slovakian entrepreneurs and their perceptions of financial and credit risks in both countries. But the investigation of the differences between sectors in a country and sectoral differences in the same country regarding entrepreneurs' perception of the field of financing is missing.

In this context, the research aims to identify and compare the perceptions of SMEs from difference sectors, also to explore and make comparisons in the perceptions of SMEs in same sectors of different countries corresponding with their aspects of loan conditions, bank approaches and SMEs' knowledge about credit terms. The contribution of the research is twofold. Czech Republic and Slovakia have similar economic conditions and the differences between Czech and Slovak SMEs are not quite usual. Therefore, finding differences in these countries regarding to perceptions of the chosen facts can create an important value addition. Moreover, having sectoral differences in the same country's SMEs about the perception of bank financing can also make contribution to the SMEs financing literature.

The rest of the paper is structured as follows: statement of the bank financing obstacles, sectoral and country differences in relation with banks' lending will be provided in section 1. Methods of the research will be clearly explained in section 2. The results of the research will be described in section 3. Discussion part will take a part in section 4. Lastly, a brief conclusion about the research will be presented.

1 Statement of a problem

SMEs can be described as “major engine of economic growth” (Belas et al., 2014a: 31) because they create many job opportunities and significant value addition for economies. The Czech and Slovakian SMEs' percentages for creation of workforce more than average of Europe, 72.1% and 66.8% respectively while their percentages for value addition of economies 54.4 and 54.5 (EC Annual Report on European SMEs 2016/2017). Considering to distance to frontier score from World Bank (2017) for getting credit index that shows the performance of economies and access to finance, scores of Czech Republic and Slovakia are 70 and 65 respectively on the scale of 100.

It seems that Czech Republic and Slovakia have similar results from above mentioned indicators and so somebody can expect that perception of banks' attitudes, knowledge about loan conditions and its' transparency can be similar for Czech and Slovakian entrepreneurs. But many factors exist in the loan conditions of various countries, its transparency and banks' approaches and these factors differently affect entrepreneurs' ability to manage their firms' financial and credit risks. This is because loan procedures are interconnected with credit and financial risks (Belas et al., 2014b).

Corresponding with banks' approaches, having more information about characteristics of SMEs and those firms' financial and credit risks can make financial institutions to get more opportunities to encourage those businesses (Kljucnikov and

Sobeková-Majková, 2016) also can make them to provide reduced financial constraints. Belas et al. (2015) outline that although entrepreneurs in Czech Republic and Slovakia have similar characteristics, Czech entrepreneurs are more agreed that banks accept their needs and help them compared to their Slovakian counterparts. The reasons why Slovakian entrepreneurs do not have positive perception about banks' approach can be higher level of required collateral and lack of financing options (Kljucnikov and Sobekova-Majkova, 2016) complicated credit approval, many procedures for lending and too tight credit evaluations that Slovakian banks implement for SME lending (Ivanova, 2017).

Being aware of credit and market conditions can make firms to cope with financial and credit risks (Belás et al., 2015b), provides access to finance (Osano, and Languitone, 2016) because it mitigates the financial obstacles for SMEs (Dong and Men, 2014) and entrepreneurs gain abilities to manage these risks (Kozubíková et al., 2015). Ability of managing credit risk has positive relationship with the performance of SMEs in the credit repayment process (Nyamboga et al., 2014). Entrepreneurs who know credit conditions of different banks cannot be prone to make credit application to the banks that charge them with higher interest rates and higher costs (Rahman et al., 2017) also ask for more collateral (Khalid and Kalsom, 2014). Moreover, by understanding banks' credit evaluation policies, SMEs can get more bargaining power to negotiate with banks regarding to loan terms (Behr and Güttler, 2007). Firms that have lack of relationships with banks, lack of experience in loan application, never received or applied loans can be less informed about loan conditions (Kirschemann, 2016). Kljucnikov and Belas (2016) find that Czech entrepreneurs are not well informed about loan conditions of commercial banks. Similarly, Koisoiva et al. (2017) reveal that Slovakian entrepreneurs have lack of information about lending terms.

Concerning to loan transparency, banks can inform SMEs about collateral requirements (Fatoki and Asah, 2011) and can make advertisements for their loan products so entrepreneurs can know which credit option is better for them (Pandula, 2015). According to Koisoiva et al. (2017) most of Slovakian entrepreneurs are disagreed with the fact that bank lending is transparent. Kljucnikov and Belas (2016) also confirm that credit terms are not transparent for Czech entrepreneurs.

Regarding to the sector of firms, the sector that SMEs operate can be a determinant factor to perceive the bank credits differently because capital structure (Dietsch and Petey, 2002), the amount of debt and tangible assets (Abor, 2007) and access to finance can differ regarding to firms' industry (Zarook et al., 2013). Moreover, commercial banks are disposed to provide loans for sectors that have higher level of profits (Dohcheva, 2009) and lower level of risks (Ramlee and Berma, 2013). Industries that have more tangible assets have more advantages to provide collateral to the banks. In this regard, service firms are less likely to get bank credit because of having lack of assets to collateralize (Abor, 2007) so banks can evaluate them as risky and can be disposed to fulfilling their needs. On the other hand, Lejpras (2009) interprets that firms in service sector need lower level of capital. Hence, they can prefer using their internal sources and they might not search for loans from external sources. For these reasons, entrepreneurs in service sector might not have knowledge about lending terms and its transparency. Kathuria et al., (2008) outline that companies in service sector usually carry on their businesses in internal markets. But,

entrepreneurs in trade industry have abilities to produce a wide variety of products and being able to adapt quickly the uncertain conditions (Agbim, 2013). Abor (2007) reveals that compared to service sector, SMEs in trade industry have more tangible assets. By having this advantage, they can provide more collateral and can get better lending terms. However, Belas et al. (2015a) do not find any differences between Czech firms that operate in various sectors and their perception of banks' attitudes.

2 Methods

SMEs differ regarding to numbers of employees, total turnover and balance sheet total. According to the European Commission no. 2003/361/EC, staff headcount is less than 10 for micro enterprises, is between 10 and 49 for small enterprises and is between 50 and 249 for medium enterprises. The study uses two different data that include SMEs from Czech Republic and Slovakia. Data collection processes separately performed in these countries by applying questionnaire surveys. The questionnaire for Slovakian SMEs was fulfilled by 438 SMEs in 2016. In order to fit the purpose of the study, 266 Slovakian firms that operate in trade and service industries are selected and 172 SMEs are excluded due operating in different sectors. The data from Czech Republic was collected in 2015 through the questionnaire of the quality of business environment that was fulfilled by 1141 respondents. In accordance with the aim of the study, 706 firms from trade and service industries are chosen and 435 SMEs are not included the Czech sample because of being in various industries. Tab. 1 depicts the structure of the samples.

Tab. 1: The structure of the selected samples

Variables		Slovak SMEs % and Number of respondents	Czech SMEs % and Number of respondents
Length of doing business	More than 10 years	44% (116)	54% (381)
	Maximum 10 years	56% (150)	46% (325)
Education	Minimum university	68% (180)	37% (262)
	Less than university	32% (86)	63% (444)
Gender	Men	67% (179)	68% (479)
	Women	33% (87)	32% (227)
Sector	Trade	37% (99)	45% (320)
	Service	63% (167)	55% (386)
Size of firms	Microenterprises	76% (201)	73% (515)
	Small and Medium	24% (65)	27% (191)
Age of entrepreneur	Minimum 45 years old	33% (88)	43% (304)
	Less than 45 years old	67% (178)	57% (402)
Total		100% (266)	100% (706)

Source: (Authors' Results)

The research focuses on three same survey questions from the both questionnaires: "The Banks accept our needs and help us" (Question 1); "SME entrepreneurs do thoroughly know the conditions under which banks provide loans to them" (Question 2); "The conditions under which banks provide loans to SME entrepreneurs are transparent" (Question 3). Five-point Likert scale is used to evaluate responses from these three questions as follows; 1-totally agree, 2-agree, 3-hold no position, 4-

disagree, 5—completely disagree. The research sets three scientific hypotheses to analyse the differences between perceptions of (a) Slovakian and (b) Czech trading and service firms. The study also makes assumptions in these hypotheses by using the information that is provided in “Statement of a problem”. These hypotheses are;

H1(a, b): A statistically significant difference exists between the perceptions of entrepreneurs in trading and service firms regarding to banks’ approaches on them. The study assumes that SMEs in trade sector will be more agreed with Question 1 than service firms do.

H2(a, b): There is a statistically significant difference between the aspects of trading and service industries regarding to their knowledge of bank credit conditions. The study presumes that compared to service firms, trading firms will more positively perceive the Question 2.

H3(a, b): A statistically significant difference exists between the opinions of entrepreneurs in trade and service industries in relation with the transparency of banks’ lending terms. The study professes that service firms are less likely to agree with the Question 3.

The study also set outs three other hypotheses to investigate whether differences exist in the aspects of trade firms in Slovakia and Czech Republic regarding to selected issues about bank financing. So following hypotheses are made;

H4: There is a statistically significant difference between the perceptions of Slovakian and Czech trade firms regarding to the Question 1.

H5: A statistically significant difference exists between the opinions of Slovakian and Czech trade firms in relation with the Question 2.

H6: There is a statistically significant difference between Slovakian and Czech trade firms’ point of views concerning to the Question 3.

The following three hypotheses are made to examine the different opinions of Slovakian and Czech service firms about bank financing;

H7: A statistically significant difference exists between the aspects of Slovakian and Czech service firms in relation with the Question 1.

H8: There is a statistically significant difference between the Slovakian and Czech service firms’ perceptions regarding to the opinion from Question 2.

H9: A statistically significant difference exists between Slovakian and Czech service firms’ considerations relating to the issue of Question 3.

In an attempt to find out whether statistically significant differences exist between chosen variables (sectors and countries) or not, the research employs Chi-Square, Z score and Pearson statistics at 5% significance level. The research accepts the alternative hypotheses in case of having p values that are lower than 5% and then rejects null hypotheses. The null hypotheses suggest the nonexistence of statistically significant differences between the selected variables. Furthermore, P values from Z score are performed to examine whether the differences from individual responses are statistically significant or not. In order to gain results from Z score and Chi square statistics, the research uses open-source software that exists in the following website: <http://www.socscistatistics.com/tests>. Moreover, the study also applies Microsoft Excel to analyse the data and to find the percentages and other descriptive statistics.

3 Problem solving

The tables that are provided in this section depict the surveys' results and the calculations of the study regarding to the Slovakian and Czech entrepreneurs' perceptions about banks' attitudes in the credit markets (Question 1), knowledge of lending conditions (Question 2) and the transparency of these conditions (Question 3). Tab. 2 illustrates the findings between Slovakian SMEs.

According to results from Tab. 2, P values from Chi-Square test are significant because they are less than 5% significance level and it confirms the fact that differences exist between trade and service firms regarding to their perceptions of the Question 1. Around 39.39%, 42.42% and 41.42% of respondents in trade firms are agree and completely agree with these opinions respectively. But these percentages for service firms are just 22.75%, 25.75% and 26.95% respectively. Furthermore, P values from Z score (**0.030**, **0.048**, **0.0146**) are also significant because of being less than 5% significance level. These values suggest that the differences between trade and service sectors are statistically significant. Particularly, compared to service firms, trade firms in Slovakia are more agreed with the selected issues. By having these significant results, the study accepts the following hypotheses; H1a, H2a and H3a.

Tab. 2: Sectoral Differences between Slovakian Trade and Service Firms

	Question 1		Question 2		Question 3		P values from Z-score
	Trade	Service	Trade	Service	Trade	Service	
Completely agree and agree	39 (39.39)	38 (22.75)	42 (42.42)	43 (25.75)	41 (41.41)	45 (26.95)	0,0030 * 0,0035 * 0,7039 *
Hold no position	9 (9.09)	39 (23.35)	20 (20.20)	47 (28.14)	35 (35.35)	63 (37.72)	0,0048** 0,1498** 0,1645**
Completely disagree and disagree	51 (51.52)	90 (53.90)	37 (37.38)	77 (46.11)	23 (23.23)	59 (35.33)	0,0146 *** 0,6965*** 0,0384***
Total number of SMEs	99	167	99	167	99	167	
Chi-square	13.017		8.0715		7.0695		
P-value from Chi-Square	0,0014		0,0176		0,0291		

Note: * results from Question 1, ** Question 2, *** Question 3.

Source: (Authors' results)

Tab. 3 shows that the P values from Chi-square and Z score are not significant at 5% significance level because all P values are higher than 5%. These results suggest that differences between trade and service firms do not exist in Czech Republic regarding to chosen statements. For this reason, the study rejects H1b, H2b and H3b hypotheses. In Tab. 4, the study presents the comparative statistics of Slovakian and Czech trade firms.

Tab. 3: Sectoral Differences between Czech Trade and Service Firms

	Question 1		Question 2		Question 3		P values from Z score
	Trade	Service	Trade	Service	Trade	Service	
Completely agree and agree	133 (41.56)	138 (35.75)	80 (25.00)	98 (25.39)	98 (30.63)	98 (25.39)	0,1141 * 0,0601 * 0,8650 *
Hold no position	79 (24.69)	120 (31.09)	99 (30.94)	126 (32.64)	153 (47.81)	205 (53.11)	0,9044 ** 0,6312 ** 0,5754 **
Completely disagree and disagree	108 (33.75)	128 (33.16)	141 (44.06)	162 (41.97)	69 (21.56)	83 (21.50)	0,1211*** 0,1615*** 0,9840***
Total number of SMEs	320	386	320	386	320	386	
Chi-square	4.1003		0.3487		2.6961		
P-values from Chi-Square	0,1287		0,8399		0,2597		

Source: Authors' results

In the Tab. 4, P values from Chi-square are less than 10% so they are significant at 10% significance level. By having these findings, the research proves the existence of the differences between Slovakian and Czech trading firms. P value from Z score is not significant ($0.7039 > 0.05$) for the respondents that are agree and completely agree with the Question 1. For this reason, Slovak and Czech trade firms that positively perceive the banks' approaches do not differ. But considering to respondents that are completely disagree and disagree with banks' attitudes, more respondents exist in Slovakia than Czech Republic (51.52% and 33.75% respectively) and this difference is statistically significant ($0.0466 < 0.05$).

Tab. 4: Differences between trade industries in Slovakia and Czech Republic

Trade sector	Question 1		Question 2		Question 3		P value from Z score
	Slovakia	Czech	Slovakia	Czech	Slovakia	Czech	
Completely agree and agree	39 (39.39)	133 (41.56)	42 (42.42)	80 (25.00)	41 (41.41)	98 (30.63)	0,7039 * 0,0008 * 0,0014 *
Hold no position	9 (9.09)	79 (24.69)	20 (20.20)	99 (30.94)	35 (35.35)	153 (47.81)	0,0008 ** 0,0384 ** 0,238 **
Completely disagree and disagree	51 (51.52)	108 (33.75)	37 (37.38)	141 (44.06)	23 (23.23)	69 (21.56)	0,0466*** 0,0292*** 0,7263***
Total number of SMEs	99	320	99	320	99	320	
Chi-square	15.1319		11.7482		5.3648		
P-values from Chi-Square	0,0005		0,0028		0,0684		

Source: (Authors' results)

Therefore, the study accepts H4 hypothesis confirming the differences between Czech and Slovak trade firms. Other p values from Z score are significant at 5%

significance level (**0.008 and 0.014 < 0.05**) and present that the differences between perceptions of Slovakian and Czech trade firms are significant. According to the results, the study corroborates that more Slovak trade firms are agree and completely agree with the Question 2 and the Question 3 than Czech trade firms. By owing these results, the research accepts H5 and H6 hypotheses.

Tab. 5: Differences between service sectors in Slovakia and Czech Republic

Service sector	Question 1		Question 2		Question 3		P value from Z score
	Slovakia	Czech	Slovakia	Czech	Slovakia	Czech	
Completely agree and agree	38 (22.75)	138 (35.75)	43 (25.75)	98 (25.39)	45 (26.95)	98 (25.39)	0,0026 * 0,0643 * 0 *
Hold no position	39 (23.35)	120 (31.09)	47 (28.14)	126 (32.64)	63 (37.72)	205 (53.11)	0,9282 ** 0,2937 ** 0,3681 **
Completely disagree and disagree	90 (53.90)	128 (33.16)	77 (46.11)	162 (41.97)	59 (35.33)	83 (21.50)	0,7039 *** 0,0009 *** 0,0006 ***
Total number of SMEs	167	386	167	386	167	386	
Chi-square	21.3213		1.2221		14.4808		
P-values from Chi-Square	0,00002		0,5427		0,0007		

Source: (Authors' results)

Tab. 5 presents the results from Slovakian and Czech service firms corresponding with the chosen statements. Considering to the results, the study finds the differences between perceptions of Slovak and Czech service firms in relation to banks' approaches (Q1) and transparency of credit conditions (Q3). (**P value from Chi-Square; 0.00002 and 0.007 < 0.05**). However, aspects of service sectors in both countries do not differ regarding to their knowledge of loan conditions (**P value from Chi-Square is 0.5427 > 0.05**). Due to having no difference between service firms, the study rejects H8. The results from Z score substantiate the existence of significant differences between Slovakian and Czech service firms for the opinions of banks' attitudes and transparency of loan conditions (**P values from Z score; 0 and 0.0006 < 0.05**). In accordance with these results, the research accepts H7 and H9 hypotheses. More Czech SMEs in service industry positively perceive banks' attitudes than Slovakian service firms. On the other hand, more Slovakian service companies negatively perceive the transparency of loan conditions than Czech service companies.

4 Discussion

To carry their activities in international markets, to make more innovations, and to have high amount of production may force trade firms to look for financing from external sources more actively. Moreover, Slovakian trade firms in this study might have had more tangible assets, might have adapted quickly the unstable conditions, might have been more innovative compared to Slovakian service firms so these characteristics of trade firms could have made the banks to be more interested with Slovakian trade firms. These facts can be the reason why Slovakian trade firms more positively perceive bank financing compared to Slovakian service companies.

The reason why no differences exist between the perceptions of service and trade sectors in Czech Republic regarding to bank financing can be discouraged borrowers in both sectors. For instance, Domeher et al. (2017) finds that significant difference exists between the amounts of applied credits and the amounts of received loans for trade firms. These situations can be possible for Czech service firms too and Czech firms in both sectors might have felt that they would be rejected when they make credit application. By having this fear of being rejected, they might not have been interested with banks' credits.

In this study, more Slovakian trade firms positively perceive the facts than Czech trade firms and the reason for this can be the education level of Slovakian respondents. According to data of this research, around 57% of Slovakian respondents in trade sector have minimum bachelor degree while only 31% of Czech entrepreneurs are graduated from university. Highly educated people can actively seek for new opportunities (Rauch and Rijdsijk, 2013) and are informed about loan options and terms (Ogubazghi and Muturi, 2014). For these reasons, Slovakian trade firms in this study could have had more information about loan conditions and its' transparency than their Czech counterparts.

The reason for being more disagree with the transparency of lending conditions for Slovakian service firms can be the relationship between those firms and banks. This is because relationships make it possible to decrease contracting problems (Berger and Udell, 2002). Comparing to Slovakian service firms, Czech firms are more experienced and older in the research data. For this reason, Czech service firms can have more relationship with banks that can be more interested with their needs and support them. This can be another reason why the differences exist between Czech and Slovakian firms regarding to the selected facts.

Those results can present significant information for governments, policy makers and banks to see the differences between perceptions of SMEs in various sectors and countries. Hence, they can close this gap by providing educations for entrepreneurs to make them more informed about loan conditions. Moreover, by creating efficient regulations, governments can increase the transparency of loan conditions and make banks to focus more on SMEs' demands and needs regarding to financing.

Conclusion

Understanding of loan conditions, transparency of these conditions and banks' attitudes to firms can enable SMEs to manage their financial and credit risks and to face with reduced bank loan obstacles. In this regard, the purpose of this research is to explore, identify and compare the perceptions of SMEs from difference sectors and countries regarding to those issues. In accordance with this selected aim, 972 Slovakian and Czech SMEs are investigated.

Although Slovakia and Czech Republic have similar economic conditions, the study finds statistically significant differences between SMEs in these countries. Comparing to trade sectors in both countries, more Slovakian trading firms think that they are aware of loan conditions that banks give them and they feel that these conditions are transparent. On the other hand, more Slovakian trade firms do not perceive that banks are interested with their needs and encourage them. Considering service industries in both countries, Slovakian firms negatively feel banks attitudes in

financing while more Czech firms positively perceive banks' approaches on SME financing. Regarding to knowledge of credit conditions, no differences exist in the service sectors of both countries. In addition, more Slovakian service firms do not feel that banks conditions are transparent for them than Czech service firms do.

When it comes to comparison of trade and service industries, the results confirm the existence of sectoral differences between Slovakian firms. Slovakian trade firms more positively perceive banks' approaches to them, knowledge of credit terms and transparency of these conditions than service firms. But, no significant differences exist between trade and service sectors in Czech Republic regarding to these facts. Even though significant differences in various sectors and countries are found, the study has some limitations. The research is only focused on bank loans, its conditions and the banks' approaches to entrepreneurs. Moreover, the study is limited with trade and service sectors and limited with SMEs from Slovakia and Czech Republic. By including more sectors, more sources of financing, more countries and more characteristics of firms and entrepreneurs, the researchers can have wide-ranging studies regarding the topic of this research.

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