FINANCING SOURCES FOR ROMANIAN SMEs IN THE CONTEXT OF KNOWLEDGE BASED ECONOMY

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ABSTRACT

SMEs access to the finance needed to run the business was and still is one of the main problems that SMEs are facing. The resources available to SMEs are always limited and insufficient for their development potential. Therefore, the study aims to identify the financing sources for Romanian SMEs, to quantify in what measure they apply to this financing sources and what is their trend.
In order to present the actual financing sources for SMEs in Romania we used 3 methods. First we conducted an interview addressed to Romanian entrepreneurs in order to identify the financing sources to which they call on most frequently. Secondly, we conducted a quantitative study in order to quantify the number of entrepreneurs that appeals to each of the identified sources. Thirdly, we compared the results from the past five years (2011 – 2015) in order to observe the trend.
Approximately 82.04% of Romanian SMEs under questioning finance their economic activities out of own sources and only 24.58% of them use the bank credit for financing. Although there is a great range of funding sources, very few entrepreneurs use other sources than the classic ones, self-financing and bank credit. There are significant numbers of SMEs that could use funds productively if they were available, but cannot obtain finance from the formal financial system.

KEYWORDS: *financing, SMEs, knowledge-based economy.*

JEL CLASSIFICATION: *D80, G20, G30, M21.*

1. INTRODUCTION

Given the current context of the increasing development of knowledge-based economic activities, as well as the European Union integration context, this article aims to highlight the financing sources for SMEs and their evolution over the past five years.

Most of the businesses are represented by SMEs, which have a very important role in any country, fulfilling multiple economic, technical and social functions. They are a source of entrepreneurial skills, innovation and job creation. In EU approximately 23 million SMEs provide around 75 million jobs and represent 99% of all businesses.

Although the SMEs have such an importance to the economy, we believe that their interests are not sufficiently taken into account by the decision factors from their field. However, in Romania there are some organisations, like National Council for Small and Medium Sized Private Enterprises in Romania, which defend and represent the SMEs' interests.

One of the main problems that SMEs are facing is the access to finance. Financial institutions are reserved when it comes to financing because of the lack of information about SMEs and entrepreneurs, because of their high vulnerability to market risks and limited assets that can be used as collateral.

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The studies show that SMEs are facing more obstacles in their development than large enterprises and the access to the financing sources in one the major obstacles identified (Ayyagari et al, 2006). Therefore, this study aims to identify which are the most important sources of financing for the SMEs in Romania, in what measure the entrepreneurs use these sources and which is the trend, taking into account the evolution of SMEs financing in the last five years.

2. THEORETICAL BACKGROUND

Knowledge-based economy is a common concept when we talk about global economic trends. This is due to the importance given to knowledge and bringing them to the forefront for the operation and development of enterprises.

In the XXI century, the basic resources are no longer capital, physical work and the land - the predominant physical factors of the industrial revolution, but intangible intellectual resources, knowledge. Knowledge is now recognized as the driver of productivity and economic growth, leading to a new focus on the role of information, technology and learning in economic performance.

It has been reported that the initial foundation for the Knowledge Economy was first introduced in 1966 in the book The Effective Executive by Peter Drucker. Drucker describes the difference between the manual worker and the knowledge worker. The manual worker, according to him works with his hands and produces good or services, but a knowledge worker works with his or her head not hands and produces ideas, knowledge and information.

Jones A. B. considers that knowledge based economy represents "the fundamental changing from the economy based primordially on the physical resources to the economy based primordially on knowledge".

The specialists' opinions regarding the definition of the knowledge based economy or new economy are different from one to another. Nicolescu O. synthesizing the definitions from the specialized literature, considers that "the knowledge based economy is characterized by the transformation of the knowledge in base material, capital, products, production factors essentials for the economy and through economic processes in which the generation, selling, acquisition, learning, stocking, developing, splitting and protection of the knowledge became predominant and decisive for the profit obtaining and for the assurance of the economic sustainability on the long term".

In the knowledge-based economy, the specialized labor force is characterized as computer literate and well-trained in handling data, developing algorithms and simulated models, and innovating on processes and systems. Harvard Business School Professor, Michael Porter, asserts that today's economy is far more dynamic and that comparative advantage is less relevant than competitive advantage which rests on "making more productive use of inputs, which requires continual innovation.

In this context, of knowledge based economy, one of the main problems that SMEs are facing remains the access to financing. The current crisis in the financial sector around the world has made such access even more critical.

In order to measure the extend in which EU firms accessing diverse financing sources, assessing the extent to which companies face difficulties in access to finance and to study the expectations of companies regarding financing their future projects, from the European Commission's order (General Directorate for Enterprise and Industry), in collaboration with the European Central Bank have been undertaken a number of research contained in Flash Eurobarometer Access to Finance (No. 271). According to researches, one of the most pressing concerns of SMEs' managers in the EU is the access to finance (European Central Bank, in 2009, Gallup Organization, 2009), this problem generates more than 16 % of the options (Daniel Badulescu, 2010). See Figure 1.
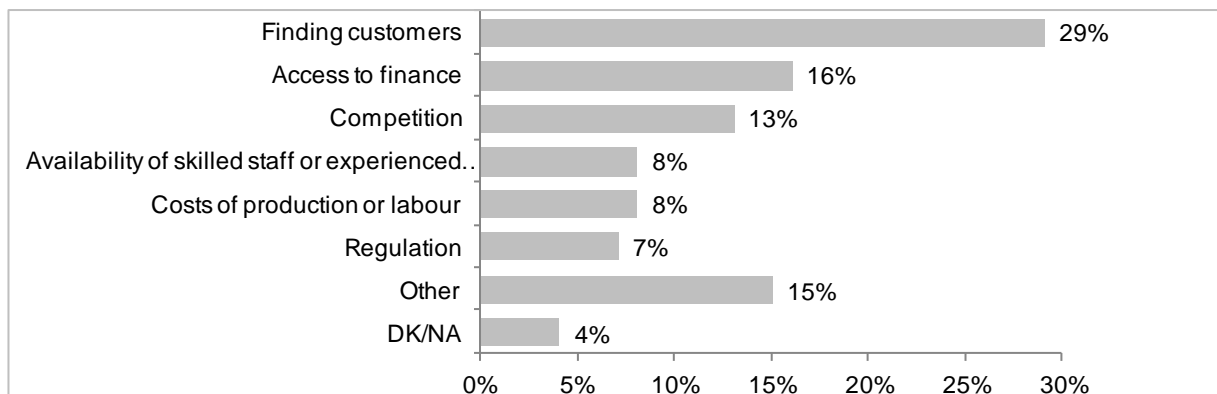
Figure 1. Companies' most pressing problems
Source: Flash Eurobarometer Access to Finance (No. 271) (2009, p.27)

As we can see in Figure 2, the share of companies from Romania that have identified the access to finance as the most important problem they are facing is 19%, above the EU27 average.
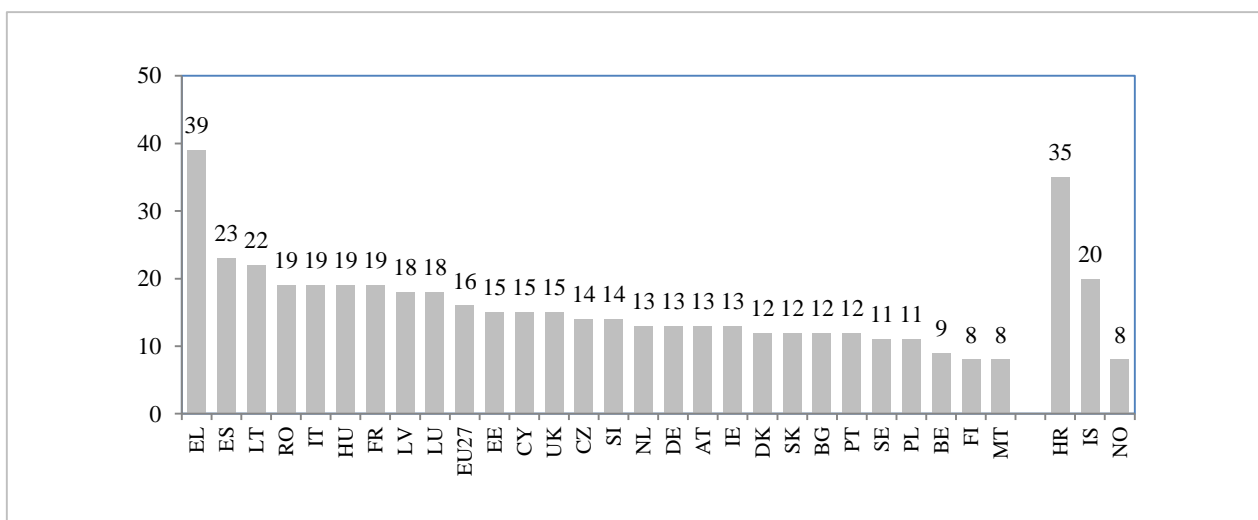
Figure 2. Companies identifying access to finance as the most pressing problem
Source: Flash Eurobarometer Access to Finance (No. 271) (2009, p.28)

3. METHODOLOGY

In order to present the actual financing sources for SMEs in Romania we used 3 methods. First we conducted an interview addressed to Romanian entrepreneurs in order to identify the financing sources to which they call on most frequently. Secondly, we conducted a quantitative study in order to quantify the number of entrepreneurs that appeals to each of the identified sources. Thirdly, we compared the results from the past five years (2011 – 2015) in order to observe the trends.

3.1. Qualitative research - interview
Qualitative research is exploratory and involves interviewing a small number of individuals and the data are not statistically representative for the population studied. The qualitative research is used to achieve richer data in content and profundity. Qualitative research has methods, techniques and research tools adapted to the studied problem's specific.
An interview is a conversation between two or more people where questions are asked by the interviewer to elicit facts or statements from the interviewee. The qualitative research interview seeks to describe and the meanings of central themes in the life world of the subjects. The main task

in interviewing is to understand the meaning of what the interviewees say. Interviewing, when considered as a method for conducting qualitative research, is a technique used to understand the experiences of others.

3.2. Quantitative research

Quantitative research is the systematic empirical investigation of observable phenomena via statistical, mathematical or computational techniques. The objective of quantitative research is to develop and employ mathematical, theories and/or hypotheses pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. Quantitative data is any data that is in numerical form such as statistics, percentages, etc.

3.3. Data analysis

Analysis of data is a process of inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domains.

4. RESULTS

4.1. Financing sources for the SMEs

Development of the knowledge and information based society led to the diversification of financing sources available for the enterprises to run their business and for developing.

Given the results of the qualitative study, the most common sources of financing indicated by entrepreneurs as the sources they used in last years are: self-financing, bank loans, supplier credit and leasing. There were also indicated other sources of financing such as non – reimbursable funds, loans from specialized financial institutions, customer credit, non-payment of the bills, guaranty from the NCGFSME, emission of shares on the capital market and factoring, but in a much smaller measure. Taking into account that the results of the quantitative study show that calling on for such sources is very rare because of the difficult access of SMEs to these financing sources or low interest of the entrepreneurs for them, we introduced those in other sources category.

4.2. Romanian SMEs financing

Hereafter, we present the results of quantitative research about the sources of financing for SMEs in the last year. The results are based on the responses of 1375 entrepreneurs and managers of SMEs in all development regions of Romania.

Given that SMEs surveyed come from all regions of Romania, that they are from all branches of activity, age groups and are micro, small and medium-sized and considering the large number of questionnaires, we consider this sample representative for the research's purpose.

Whereas the finance sources for economic activities that SMEs' entrepreneurs/managers called upon in the last year, our study results show the following aspects: 82.04% of the companies have used self – finance, 24.58% of the companies have got bank credits, 18.33% of SMEs have used a suppliers' credit, 3.85% of the enterprises have used the leasing, 1.82% of the enterprises have used non – reimbursable funds, 1.53% have used loans from specialized institutions and 1.45% have used customer's credits, as a source of finance. See figure no. 3

At the same time we also notice the fact that 0.44% have used the guaranteeing under the National Credit Guarantee Fund for SMEs; the companies under investigation have used to a smaller extent other forms of finance, such as customer's credits, the emission of shares, factoring etc.
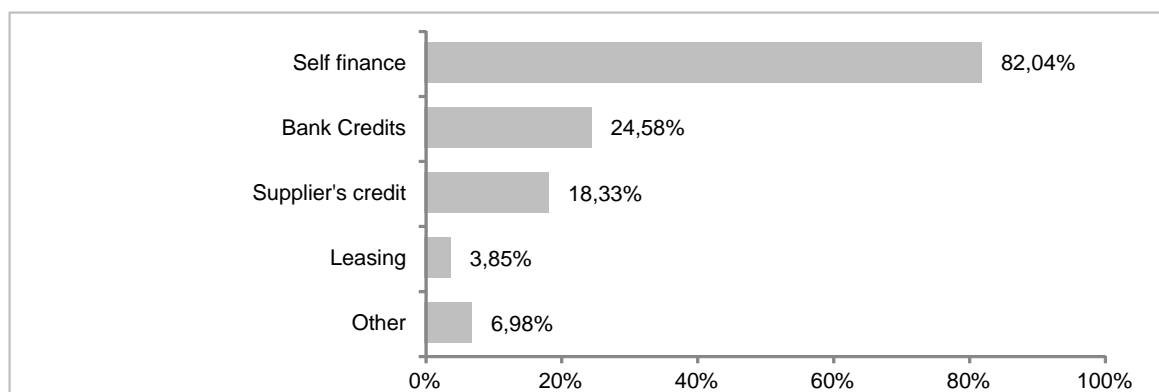
Figure 3. SMEs structure, subject to the methods for financing economic activities
Source: Own study

By grouping SMEs, as per the latter's size (see table 1), we notice that:
- micro-enterprises mainly use self - finance (82.40%) and supplier's credit (18.44%) and less bank credits (24.03%), leasing (3.55%) and non – reimbursable credits (1.44%);
- medium – sized enterprises call more frequently upon bank credits (43.48%), leasing (13.04%), non – reimbursable funds (8.70%), customer's credits (8.70%);
- the guaranteeing from the National Credit Guarantee Fund for SMEs is mainly present in the case of small companies (0.59%).

Table 1. Differentiation of SMEs financing methods by size classes

No.	Financing Methods	Companies' Size		
		Micro	**Small**	**Medium**
1.	Self - finance	82.40%	80.00%	78.26%
2.	Bank credits	24.03%	25.88%	43.48%
3.	Supplier's credit	18.44%	17.65%	17.39%
4.	Leasing	3.55%	4.71%	13.04%
5.	Non - reimbursable funds	1.44%	3.53%	8.70%
6.	Loans from specialized financial institutions	1.52%	1.76%	0.00%
7.	Customer's credit	1.35%	1.18%	8.70%
8.	Non - payment of invoices	0.68%	1.18%	0.00%
9.	Other	0.51%	2.35%	0.00%
10.	Guaranteeing under FNGCIMM	0.42%	0.59%	0.00%
11.	Emission of shares on the capital market	0.17%	0.59%	0.00%
12.	Factoring	0.08%	0.00%	0.00%

Source: Own study

The studying of SMEs, as per fields of activity (table 2):
- companies from services and tourism mainly use self-finance and less frequent other forms of financing;
- enterprises from the transportation field register the highest percentage of companies having used bank credits (29.55%), leasing (9.09%), or non – reimbursable funds (4.55%);

- companies from the constructions field use more frequently non - payment of invoices (3.64%);
- enterprises from the industrial sector call more frequently upon supplier's credit (21.67%) and customer's credit (3.04%).

Table 2. Differentiation of SMEs financing methods by fields of activity

| No.	Financing Methods	SMEs by fields of activity					
		Industry	Constructions	Trade	Transportation	Tourism	Services
1.	Self - finance	79.09%	83.64%	80.69%	79.55%	86.49%	85.61%
2.	Bank credits	25.48%	21.82%	24.48%	29.55%	21.62%	24.24%
3.	Supplier's credit	21.67%	16.36%	20.69%	20.45%	8.11%	13.64%
4.	Leasing	4.94%	1.82%	3.62%	9.09%	2.70%	3.28%
5.	Non - reimbursable funds	3.42%	1.82%	1.21%	4.55%	0.00%	1.52%
6.	Loans from specialized financial institutions	1.90%	0.00%	1.38%	2.27%	5.41%	1.26%
7.	Customer's credit	3.04%	1.82%	1.21%	2.27%	0.00%	0.76%
8.	Non - payment of invoices	1.90%	3.64%	0.17%	0.00%	0.00%	0.51%
9.	Other	0.76%	1.82%	0.52%	0.00%	0.00%	1.01%
10.	Guaranteeing under FNGCIMM	0.76%	0.00%	0.52%	0.00%	0.00%	0.25%
11.	Emission of shares on the capital market	0.00%	0.00%	0.52%	0.00%	0.00%	0.00%
12.	Factoring	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%

Source: Own study

4.3. SMEs financing trends

Given the diversification of the financing sources for SMEs in Romania in the context of the knowledge based economy, in Figure 4 we observe the trend of entrepreneurs' calling on from these sources. This is given by the entrepreneurs' preference and by the degree of difficulty obtaining financing.

In Figure 4 we can see an increasing trend in the past 5 years for the SMEs that are using self-financing. Fewer SMEs apply to bank loans in order to finance their activities, their rate decreasing from 41.39% in 2011 to 24.58% in 2015. The SMEs' rate that appeals to leasing decreased considerably, from 14.61% in 2011 to 3.85% in 2015. The number of entrepreneurs that use supplier's credit as a financing source is slightly increasing, while the rate of those who seek other sources of financing than those mentioned is around the 10% and it does not register major differences from one year to another.

The fact that SMEs have difficulties in accessing finance is increasingly important in the context of a fast changing knowledge-based economy in which innovative SMEs with high growth potential are key in raising productivity and in maintaining competitiveness. The ability of small firms - particularly fast-growth 'gazelles' - to exploit investment opportunities is dependent on the extent to which low-cost external sources of financing are available.
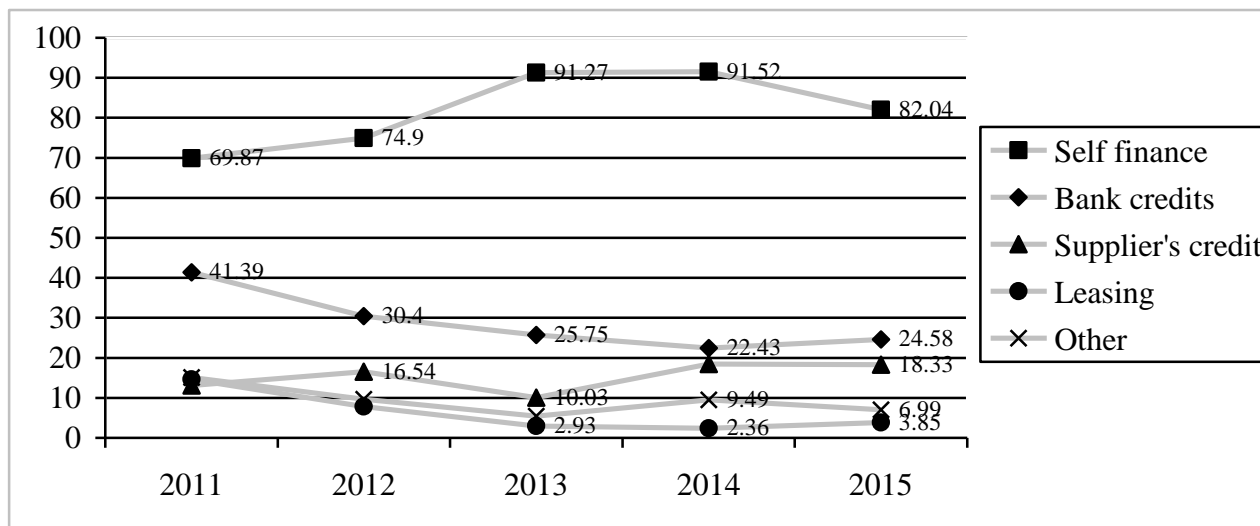
Figure 4. The trend of financing sources for the Romanian SMEs
Source: Own study based on White Charter of Romanian SMEs

5. CONCLUSIONS

SMEs are the basis of our economy and we must encourage them. They contribute to economic growth, competitiveness, entrepreneurship and innovation.

The access to the capital is a permanent problem that SMEs are facing, especially because they cannot offer guarantees that creditors traditionally ask.

Financing is necessary to help SMEs set up and expand their operations, develop new products, and invest in new staff or production facilities. Many small businesses start out as an idea from one or two persons, who invest their own money and/or have financial help of family and friends in return for a share in the business. But if they are successful, they need new investment to expand or innovate further. At this point they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit.

SMEs are the fundament of economy and SMEs are vital to promoting economic growth, competitiveness, entrepreneurship and innovation, and to creating new jobs. Ensuring adequate access to finance so that SMEs can grow and achieve their full potential is central to achieving the objectives of the renewed Lisbon partnership for growth and jobs.

Approximately 82.04% of Romanian SMEs under questioning finance their economic activities out of own sources. This can be interpreted in two ways. On the one side is a good thing because entrepreneurs reinvest profits earned, therefore they trust the activity of SMEs and it is an indicator that they have a good chance of success. On the other hand, if we correlate the number of SMEs that support themselves with the SMEs who seek external sources of financing, we deduce that most of them use self-financing as the only source of funding. This represents a significant barrier to the development of SMEs since they cannot explore their full potential only by self-financing.

24.58% of SMEs use the bank credit for financing. This number is very small compared to the financing needs of enterprises.

Analyzing the below research several key ideas can be drawn: access to finance is one of the main problems of SMEs (just after "finding customers" but before "competition" or "availability of skilled staff or experienced managers"); in Romania, SMEs' access to financing is more pronounced than the average of Europe; although there is a great range of funding sources, very few entrepreneurs use other sources than the classic ones, self-financing and bank credit; depending on the size or on their activity field, SMEs appeal in different measure to different financing sources; according to the evolutions shown in Figure 4, the SMEs tend to finance themselves, which is a problem both for companies and for the economy.

There are significant numbers of SMEs that could use funds productively if they were available, but cannot obtain finance from the formal financial system. The financing gap affects a sub-set of SMEs, such as innovative firms, whose technology and business models are not understood by many more traditional financial institutions and start-up enterprises and very young firms, which lack a track record and collateral against which to raise debt finance.

European Union and even Romania provide funding for SMEs through various programs and projects but there is a high bureaucracy and most entrepreneurs consider them still inaccessible, as evidenced by the fact that most of these use self-financing.

This study is a very useful material for those interested in the subject of SME financing and funding sources available. Reusing these models by updating the data can create an overview at any future moment. However, the model has some limitations, one of them being the particularity of Romanian SMEs. Another limitation may be the different interpretation in each country and region in which it is applied

This work can be used as a foundation for future researches by analyzing the factors that influence the selection of financing sources by entrepreneurs and managers.

ACKNOWLEDGMENT

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