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# The microeconomic impact on growth of SMEs when the access to finance widens: evidence from internet & high-tech industry

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**Abstract**

The paper studies the impact on growth of SMEs in Europe when the access to finance increases, and the respective correlation between credit evaluation and accounting ratios. The research supporting the findings involved a sample of 1327 enterprises, and will be conducted by a multiple regression econometric model. The aim of this analysis is to identify the relationship between growth, solvency, and liquidity accounting ratios. The expected outcome of this paper is that growth of SMEs is strongly dependent on the financial access. Furthermore the author addresses the governmental decision makers with recommendations to ease the access to finance.


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*Keywords:* Financial development; SMEs; growth; econometrics; governmental policies

## 1. Introduction

The current status of small and medium enterprises (SMEs) in terms of financing is in general characterized by the absence of sufficient funds to sustain the corporate structure, the technologic modernization, and growth. The main channel of financing remains the bank credit loan, despite the associated high costs, the unavailability of credit in the market, the required assets as collateral (Mark Zhou, 2011), and the bank's risk adverse policies to supply loans to SMEs. Despite these current obstacles, SMEs remain as the key driver to trigger the competitiveness, growth, innovation, and employment of European countries particularly during the economic crises when the large corporations downsize their work force. To create a favourable business environment to enhance the SMEs

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potential, governments shall develop adequate policy responses such as easier financial access, business support, and investments in education to improve the labour skills. Efficient policy frameworks can help the SMEs to face their binding growth constrains, promote the competitiveness, and entrepreneurship (OECD, 2012).

SMEs are the central pillar of European economy, where 99 out of 100 firms are SMEs, and in every 3 employees 2 are working also for SMEs. The European employment structure of SMES comprises 33% employees working for companies with more than 250 workers, 17% working for medium size companies, and 50% within small and micro firms. The SMEs have shown a weak economic recovery from 2012 to 2013 with a +1.1% increase of value added created, and a fully recovery in services. The manufacturing and construction industries are still behind the pre-crisis levels in 2008. The top 6 challenging problems considered by SMEs in 2013 were: finding customers with 22.4%, access to finance 15.4%, regulation 14.2%, availability of skilled staff 14.2%, competition 13.8%, and cost of labour with 12.9% (EC Annual report on European SMEs, 2014).

This paper gathers a combination of detailed information related to findings in Bureau van Dijk's (Amadeus) database, which includes financial information on more than 5.000.000 enterprises registered across western and Eastern Europe (Klapper, Allende, Sulla, 2002).

There are existing a large number of papers and study researches about the existing realities of small and medium enterprises in developed countries with a focus on traditional industries, however just few attempts were made in the internet and new high-technologic businesses.

Small and medium enterprises are prospectively the most flexible and adaptive firms in the emerging internet and high-tech market. They usually are dynamic and get into modern areas as ecommerce or research & development of new technologies. Notwithstanding, it is common for them to have limited access to credit, long term loans, often also with administrative obstacles, and legal restrictions.

The author deals with the topic of access to finance by SMEs in Europe with a central focus on bank lending. SMEs are an essential sector of any economy because despite the respective job creation, they are able to bring new services that usually are not provided by any large businesses. Even though SMEs are so important to the economy in Europe, the bank system has barriers to supply loans to new unproven entrepreneurs, start-ups, and more specifically internet companies. Looking at the example of the business environment in United States (US), the venture capitals funds are by far the largest investors in the internet and technologic industries (Munro, 2012). Like US, many developed countries have created as well the “business angels” or “incubators” to support the new entrepreneurs building up their companies. Furthermore, despite of some banks started to be interested in providing loans to SMEs, they are likely only to become their creditors when the financial statements of SMEs switch to positive in what regards accounting ratios such as equity, solvency and liquidity. The banking system is not being able up to now to perform a fairly and extensive credit risk assessment of SMEs. The banks recall often the existing information asymmetry as the main reason to decline credit applications, but in reality there does exists a shortage of credit analysts with enough knowledge to evaluate the creditworthiness accurately (Munro, 2013). As an alternative to approve the credit loans, financial institutions require substantial tangible collaterals along with other guarantees from the shareholders.

In the aftermath of the financial crisis in 2009, where the financial system had to shrink the available offer of loans due the existing toxic assets in portfolio, the credit underwriters start to rely on old-fashion low risk scorecards, rather than updating the skills or developing new modern econometric credit models with algorithms allowing the prediction of behaviours based on past observations.

## 2. Research Hypothesis

Are the solvency and liquidity accounting indicators determinants of the SMEs growth? Evidence from internet and high-tech industry

## 3. Paper structure

The paper is structured into sections: 1st, 2nd, and 3rd sections have the introduction, the hypothesis and the structure; the 4th section has the literature review, the conceptual and empirical framework; the 5th, 6th, and 7th sections include the research methodology and the econometric model; the 8th has the discussion of the researched