

IMPACT OF AGE OF THE ENTREPRENEUR ON THE EXPORT FINANCING. CASE STUDY FROM SLOVAKIA

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Abstract: *SMEs are frequently experiencing problems with obtaining capital for the expansion and cross-border activities due to their specific characteristics. Smaller enterprises owned or managed by younger entrepreneurs belong to the most vulnerable segment. The aim of this paper is to bring the statistical evidence whether the age of an entrepreneur is a significant factor with the relevant impact on export activities financing in case of SMEs in Slovakia. The presented results are based on the research carried out among Slovak SMEs in 2016 in comparison with the data from the international survey called TwinEntrepreneurs Regional Study that was performed by the Young Entrepreneurs Association of Slovakia and Vienna Business Agency in 2013. Application of Pearson's chi square statistical analysis of the results brings clear statistical evidence that while the age of the owner is not a significant factor in the export decision making process, it becomes a significant factor in case of the export financing.*

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JEL Classification: *G11, G32.*

Introduction

The segment of small and medium-sized enterprises (SMEs) contains more than 565 000 companies, employs 72.7 % of active workforce in Slovakia and creates more than 53 % of added value in state economy (SBA, 2014). According to the statistical data their share on total export of the country reached nearly 30 % in 2014. 5.2 % of Slovak SMEs export products and services abroad. The obvious importance of the SMEs for the economy was declared by many authors (Badulescu, 2012; Belás et al. 2014a; Belás et al. 2014b; Doležal et al. 2015; Henderson and Weiler, 2010; Petr, 2016; Rajnoha et al. 2016; Sobeková Majková, 2011a; Sobeková Majková, 2016b; Ključnikov et al., 2016; Korcsmáros et al., 2016 etc.). According to the data from Slovak Statistical Bureau the share of young entrepreneurs (up to 34 years old) is currently exceeding 29 %, which makes them a negligible part of the market economy. Unfortunately a special type of problems occurs in this segment, and the lack of capital belongs to the most important ones (Jakubec et al., 2012).

The aim of this paper is to bring the statistical evidence that the age of an entrepreneur is a significant factor with relevant impact on export activities financing in case of SMEs in Slovakia. Presented results are based on the research carried out among Slovak SMEs in 2016 in comparison with the data from the international survey TwinEntrepreneurs Regional Study that was performed by the Young Entrepreneurs Association of Slovakia and Vienna Business Agency in 2013. Application of Pearson's chi square statistical analysis of the results brings clear statistical evidence that while the age of the owner is not a significant factor in export decision making process, it becomes the significant factor in case of the export financing. Younger entrepreneurs seem to be more acquainted with the

area of export financing than older, their level of application of specific financial tools (insurance claims, factoring, forfaiting, etc.) in export risk limitation is higher than in case of the older ones. On the other side they use the instruments of the state support of the export activities more rarely than older colleagues, even though their interest about this type of support is higher.

1 Statement of a problem

Different types of private and state institutions, including banks, insurance or factoring and mezzanine companies, and state export support institutions provide products and instruments that can be used to finance export activities of the entrepreneurs (Sobeková Majková, 2011; Sozanov et al., 2016). Several studies, mentioned in this part of the paper, confirm the existence of difficulties in application of these products and instruments especially in case of the young entrepreneurs. Younger people usually have short company history, declare a lack of guarantees. These disadvantages force them to be more effective and informed in order to be successful on the global market.

The following studies declare that smaller and younger companies have different financial patterns than bigger and older ones also in export activities financing. Larger firms have fewer incentives to use export financing since they can use the internal financing sources, including internal cash flow (Casey and O'Tolle, 2014).

There was examined the behavior of 70.000 companies to determine the financial patterns of the younger ones. The study brings the evidence that younger exporting companies use the bank financing less than the older ones due to more intensive impact of the problem of asymmetric information. The authors argue that trade credit as a source of financing can be a substitute for the bank financing in case of younger firms (Chavis et al., 2011). The next study of Cassar (2004) presents quite similar findings at the example of young Australian companies. According to the research the formal financial sources scares the companies more than the trade finance. The results also suggest that small companies are more dependent on the export financing as a result of a lower availability of bank financing. It was also found that manufacturing firms are dominantly using bank financing, whereas service firms more rely on the export or trade financing due to the lower level of physical assets. Also next research of the authors Huyghebaert et al. (2007) declares similar findings. The paper brings the results of the empirical examination of the use of trade credit in case of 328 young Belgian firms at the stage of business start-up. According to this study young companies are facing more obstacles in getting financing from the formal sources of finance, and are more intensively using trade credit due to worse relationships with the banks. It was also found that young firms apply the instruments of the management of the current assets and receivables, including trade credit more intensively in case of the increase of the credit constraints from the formal sources due to higher interest rates as well as shorter maturity period. This study suggests that trade financing plays a pivotal role in the early stages of the business start-ups as a result of high credit constrains and also due to worse relationships with the banks.

Other research was focused on trade credit contracts. It brings evidence that the trade credit is mainly based on the negotiations which are highly dependent on the relationships between the exporter and importer or suppliers and buyers. The strong relationship between the parties can reduce the interest rates on the trade credit as well as it can increase the maturity period of the contract. It is found that most of the trade credit contracts are cheaper than the formal bank loans and buyers are more comfortable to use the financing from the

suppliers. Cheaper trade credit helps the younger firms to overcome the credit constraint problem and as result they can grow faster. Hence, trade credit helps the firms to grow more rapidly in the period of credit rationing from the banks (Gianetti et al., 2008). The author Cole (2010) brings the evidence from the US. It states that the companies that are using trade credits are usually smaller and younger, and consequently having shorter credit history and credit information for bank financing.

Other study examined financing of newly established SMEs in the South Africa. The authors Fatoki and Odeyemi (2010) state that the relationships with the suppliers are positively associated with the usage of trade finance, while closer relationships increase the level of the trade credit, provided by the exporter. They did not find any significant difference between the male and female entrepreneurs in terms of use of trade financing. But, they argue that the level of education and entrepreneurial experience can minimize the effect of gender in terms of use of trade financing. Next research was focused on the use of trade credit as a mean of export financing among 47 197 small companies in seven European countries, namely, Belgium, Finland, France, Greece, Spain, Sweden and the UK. It brings the evidence the export financing is significantly positively associated with the growth of the firm, which is more appealing for the small firms than the medium or larger firms. The results suggest that firms that have higher costs associated with the external financing use trade credit more than the firms with the access to the cheaper forms of bank financing (Garcia-Teruel and Martinez-Solano, 2010). This fact was declared also in case of the Spanish companies (Martinez-Sola et al., 2014). Other finding confirms that small companies managed by young entrepreneurs more intensively use trade financing in the financing of their export activities than larger companies (Huyghebaert et al. 2007).

The author Atanasova (2012) examined the impact of the age and size of the company, and riskiness in the context of export financing of the UK companies. The paper presents the finding that young and small firms are more dependent on the trade credit due to the immediate shortage of funds. The reason is that they do not have enough assets to pledge as collateral as well as they do not have audited financial statements to ask for bank loans. The author argues the trade credit cannot be a substitute to bank financing rather it can be a complementary for the small and young firms. She says that at the time when a small firm can renegotiate its credit terms with the supplier it becomes a positive signal about borrower's situation for the bank. Experience of French companies shows that financially solvent buyers often pay for their products in advance to the financially weak suppliers. That means that in order to make the production process smoother, financially weak exporters receive the money in advance from their international buyers. The author Mateut (2014) also strongly supports the thesis that advance export financing can replace the bank financing for the small firms as they are more informationally opaque. In the Germany, there was proved statistically positive impact of advance in export financing (Eck et al., 2014).

Banks loans belong to the most important sources of finances for export operations. Italian authors examined whether the bank support of SMEs can increase their exporting activities in Italy. They found that long-term relationship with the main bank can reduce the financial constraint for the small firms and can facilitate them to sell more products to the global market. Intensive credit support can help SMEs to export on more than one foreign market. The authors Bartoli et al. (2014) found that bigger companies have more export activities than smaller due to the fact that they are more financially solvent and can accept more risk due to their international business activities. Other study of the authors Jinjarak

and Wiganraja (2016) investigated the effect of the increase of SMEs export activities on getting the access to bank financing. It founds that the increase of the share of SMEs production being sold abroad helps the firm to build a reputation on the market, and as a result the company can get the easier access to the bank financing. The authors also suggested that when a company becomes actively involved in export, it has to maintain clear financial statements in order to get a smoother access to the bank loans. They have found the evidence that SMEs export activities increase their financial flexibility, because they have a possibility to ask their international buyers for the upfront payments and, hence they can rely on the export financing instruments in their financial management.

Presented studies confirm that smaller and younger companies in comparison with the bigger and older ones usually have a different financial pattern, which is also valid for the export financing. The data, further presented in this paper, confirm this statement only partially. Several identified differences may be a benefit for economic theory of export financing. Our study identifies which age group of the entrepreneurs is better oriented in the issue of export financing, measures the perception of the state support of export activities in Slovakia, provided through the special state agencies like EXIM bank (Export-import bank), Slovak Guarantee and Development Bank (SGDB) and Slovak Business Agency (SBA).

2 Methods

2.1 Data collection and character of the sample

The background data of this paper were gained at the researches carried out among Slovak SMEs in 2016 and the international survey called TwinEntrepreneurs Regional Study that was performed by the Association of Young Entrepreneurs of Slovakia and Vienna Business Agency in 2013 among Slovak and Austrian young entrepreneurs.

The research focused on the actual situation in Slovak business environment was carried out in 2016 by the method of questionnaire survey. The total number of the respondents was 438, while 93.8 % of them belonged to the group of SMEs. According to the calculated sample the research team assumes that our data are representative, and have reliability of 95 %. The sampling error of +/- 5 % should be considered. The minimum size of the sample should be calculated according to the formula:

$$n = (1.96)^2 \times \sqrt{p \times (1 - p)} / 0.05^2 \quad (1)$$

where: p is the share of the sample. The size of the minimum sample was 310, while the real size of our sample was 438. The number of the respondents fulfills the requirements for stochastic selection.

Comparison of the different characteristics of the basic data set and our selected sample indicates striking similarities, while the differences between them are insignificant. For instance, the basic data set contains 99.8 % of SMEs, while our sample contains 93.8 % of them (the difference is only 6 %); the data about the regional structure and the area of economic activity of the selected companies are also close to each other.

TwinEntrepreneurs Regional Study (Šrenkel et al., 2013) is the result of the comparative research in the area of start-ups and financing of young entrepreneurs in Slovakia and Austria. The research in Slovakia was realized by Slovak Association of Young Entrepreneurs. The sample consists of 180 respondents, while 37 of them claimed that they export their products and services, 127 of the respondents planned to export in the future,

and 16 neither realized nor planned the export activities in the future. The share of the female respondents was 66 %, and 34 % of them were males. The Austrian part of the research was carried out by Vienna Business Agency.

Research data were analyzed by the tools of descriptive statistics (averages and percentage), using Microsoft Excel (Office 2007) software as an important tool for data analysis due to its possibilities in data processing using pivot tables, and by the methods of comparison and deduction in data analysis. Statistical method of Pearson's chi-square was also applied, while the results were calculated through the online statistical software available at www.socstatistics.com.

2.2 Formulation hypotheses of the survey

Formulation of the null hypothesis was as follows: *There are not statistically significant dependencies between the age of the entrepreneur and the chosen factors of export financing on the Slovak market.*

$$\text{Null hypothesis } \pi_1 = \pi_2 \text{ so } \pi_1 - \pi_2 = 0 \quad (2)$$

$$\text{Alternative hypothesis } \pi_1 - \pi_2 \neq 0 \quad (3)$$

Alternative hypotheses were formulated as follows:

H1: The age of the entrepreneur has a significant impact on the realization of expanding or exporting activities.

H2: The age of the entrepreneur has a significant impact on the level of their orientation in the area of export financing.

H3: The age of the entrepreneur has a significant impact on the usage of the financial tools reducing the risks in export activities.

H4: The age of the entrepreneur has a significant impact on the usage of the products of EXIM bank.

H5: The age of the entrepreneur has a significant impact on the opinion that the level of the state support of export of goods and services is satisfactory.

3 Problem solving

As the first we examined the impact of the age on the export activities. We assumed that young entrepreneurs and owners (or managers) of the start-ups have more courage and more global ambitions than older entrepreneurs, but the results did not confirm this assumption. The age of an entrepreneur does not have a significant impact on the company's decision to whether to start the export activities. The value of chi-square statistic is $\chi^2 = 5.0396 = \chi^2_{0,05 \text{ with } 2 \text{ dgf.}}$. *P*-value of 0.080476 indicates that the result is not significant at $p < 0.05$ (Tab. 1). This result allows us to reject the *alternative hypothesis H1*. In this one case it was proved that there is no connection between the age of the entrepreneur and the fact that the firm does or does not perform the exports activities.

Tab. 1: Impact of age on the decision to start a cross border expansion

Cross-border orientation	Cross-border expansion AV* (%)	Non-cross border expansion AV (%)
Up to 35 y/o	70 (42.94)	93 (57.06)
36 – 45 y/o	62 (54.39)	52 (45.61)
46 + y/o	67(41.61)	94 (58.39)
Total	199 (45.43)	239 (54.47)
Average value	66.33 (46.31)	79.66 (53.69)
<i>p-value</i> /** χ^2	0.080476 > 0.05	5.0396

*absolute values, ** value of chi-square calculation

Source: Authors

The data presented in Tab. 2 indicate that the alternative hypotheses H2 – H5 were verified at the base of the chi-square calculation. These findings allow us to state that while the age of the owner does not have a significant impact on the decision making in relation to the realization of export activities, it is a significant factor in relation to export financing.

Younger entrepreneurs are better oriented in the field of export financing than older ones. This statement was confirmed by the results of chi-square $\chi^2 = 23.9894 = \chi^2_{0,01}$ with 4 dgf. *H2 was verified* at 99 % level of probability, while the biggest differences were identified between the groups of entrepreneurs younger (27.4 %) and older (9.94 %) than 45.

Tab. 2: Impact of the age on the financing of export activities

	PR/NR	Data of descriptive statistic according age groups AV (%)				
		35-	36-45	46+	Total	Average
H2	PR	35 (21.47)	38 (33.33)	16 (9.94)	89 (20.32)	29.66 (21.58)
	NR	44 (26.99)	29 (25.44)	59 (36.65)	132 (30.14)	44 (29.63)
	<i>p-value</i> / χ^2 /dgf	0.00008 < 0.01/23.9894/4				
H3	PR	36 (22.09)	32 (28.07)	20 (12.42)	88 (20.09)	29.33 (20.86)
	NR	57 (34.97)	43 (37.72)	76 (47.20)	176 (40.18)	58.66 (39.96)
	<i>p-value</i> / χ^2 /dgf	0.010279 < 0.05/13.2134/4				
H4	PR	15 (9.20)	25 (21.93)	8 (4.97)	48 (10.96)	16 (12.03)
	NR	148 (90.8)	89 (78.07)	153 (95.03)	390 (89.04)	130 (87.96)
	<i>p-value</i> / χ^2 /dgf	0.00035 < 0.01/20.4968/2				
H5	PR	25 (15.34)	21 (18.42)	11 (6.83)	57 (13.01)	19 (13.53)
	NR	69 (42.33)	50 (43.86)	74 (45.96)	193 (44.06)	64.33 (44.05)
	<i>p-value</i> / χ^2 /dgf	0.047164 < 0.05/9.629/4				

*absolute values, ** value of chi-square calculation, PR – positive responses, NR – negative responses, dgf – degrees of freedom.

Source: Authors

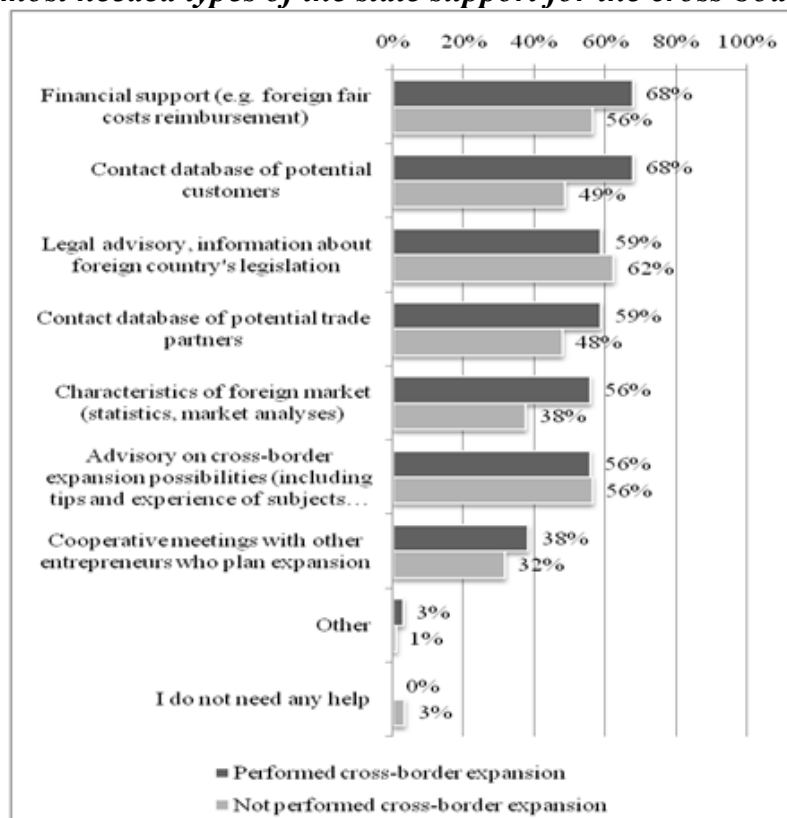
Younger entrepreneurs are more acquainted and apply the financial tools (insurance claims, factoring, forfaiting, etc.) in order to reduce the risks from export more often than the older ones. Alternative *hypothesis H3 was verified* at 95 % level of probability, value

of chi-square calculation was $\chi^2 = 13.2134 = \chi^2_{0,05 \text{ with } 4 \text{ dgf.}}$. Again the biggest differences were between the groups of entrepreneurs younger (25.08 %) and older (12.42 %) than 45.

In case of the alternative hypothesis H4 younger entrepreneurs presented a different behavior in comparison to the entrepreneurs in the age between 36 and 45. Only 9.20 % of the younger entrepreneurs had ever used the financial export products of the EXIM bank. In the age group between 36 and 45 the share was 21.93 %. This finding is corresponding with the studies of others authors [26], [17], [21] and confirms that the majority of the Slovak entrepreneurs have no information about the existence of the special export supporting financial institutions like the EXIM bank or SGDB. The value of chi-square calculation $\chi^2 = 20.4968 = \chi^2_{0,01 \text{ with } 2 \text{ dgf.}}$ confirms this statement. *Alternative hypothesis H4 was verified at 99 % level of probability.*

The data obtained in the international research TwinEntrepreneurs Regional Study brought interesting findings for comparison. It examined what were the barriers of the cross-border expansion of young entrepreneurs too. It brought an interesting finding that in the group of companies who do not export abroad, the most sufficient problem connecting with export was the lack of finance (65%). This finding brings the better understanding of this type of companies, and relates to H4, stating that young entrepreneurs rarely use supporting products of export financing. Our research team implies, that more developed state support in this field may therefore bring substantial results in the development of the export based entrepreneurship in the country. TwinEntrepreneurs' results indicate 45 % of the respondents who plan to export or do export their products and services abroad did not know that the state institutions support cross-border expansion activities. 17.77 % of them planned to use the financial support of SBA, 11.11 % planned to inquire the agency called Sario, and only 4.4 % of them planned to use the support of EXIM bank, and the rest of 21.48 % claimed that they were planning to use the support of foreign institutions.

Fig. 1: The most needed types of the state support for the cross-board expansion



Source: Authors, Šrenkel et al. 2013

The last hypothesis H5 stating that the age of the entrepreneur has a significant impact on the opinion that the level of the state support of export of goods and services is satisfactory was also confirmed to be true, because the calculated value of chi-square was $\chi^2 = 9,629 = \chi^2_{0,05 \text{ with } 4 \text{ dgf.}}$. The alternative *hypothesis H5 was verified* at 95 % level of probability. The entrepreneurs of age groups up to 35 (15.34 %) and in between 36 and 45 (18.42 %) perceive that the level of the state support of export of goods and services is satisfactory to a significantly higher extent than older ones. These results are closely related with the outcomes of the survey from TwinEntrepreneurs Regional Study, presented in Fig 1, what revealed the types of the state support, that are perceived as the most valuable among the young Slovak entrepreneurs. The entrepreneurs who export their goods and/or services abroad pointed out the financial support and the provision of the contact databases of the potential customers (in both cases it was 68 %) as the most important. The entrepreneurs who do not export abroad featured the legal advisory, provision of the information about the foreign country's legislation (62%) and the support in the field of financing (56 %) as the most important forms of the state support.

4 Discussion

Pearson's chi square statistical analysis of the data from the survey allows us to confirm that the age of the entrepreneur should be considered as a relevant factor with the significant impact on the financing of the export activities. We brought statistical evidence that the biggest differences between the monitored groups appear between the entrepreneurs with the age beyond or above 45 years. In all cases except for the H4 the replies of these two groups of respondents were statistically close to each other.

It is obvious that younger companies do not have sufficient financial resources and internal cash flow for the export financing. This fact was also confirmed by the many international (Cassey and O'Tolle, 2014; Cassar, 2004; Cole, 2010; Fatoki and Odeyemi, 2010; Garcia Teruel and Martinez Solano, 2014; Giannetti et al., 2008; Huyghebaert, 2006; Huyghebaert et al., 2007; Chavis et al., 2011; Mateut, 2014) and Slovak studies (Sobeková Majková, 2011; Simo et al. 2016; Jakubec et al. 2012). We presented their findings in the first part of the article. Although the results of our research show that young entrepreneurs are in a disadvantaged position in this field, they are better oriented in the export financing in comparison with their older colleagues. Despite the fact that they are better informed in this field, they still perceive the lack of the state support in the export activities through the EXIM bank, Slovak Business Agency, Sario and Slovak Guarantee and Development Bank (SGDB). Lack of the financial sources for the development of the export operations is one of the biggest barriers for the expansion of export activities in case of young entrepreneurs. This finding may be an interesting clue for the government, which should pay some attention to the arrangement of the information campaigns about the supportive activities in the field of export, and meet the demand of the young entrepreneurs for this type of support.

Conclusion

The aim of this paper is to bring the statistical evidence whether the age of an entrepreneur is a significant factor with relevant impact on export activities financing in case of SMEs in Slovakia. Application of Pearson's chi square statistical analysis of the results brings clear statistical evidence that while the age of the owner is not a significant factor in export decision making process, it becomes the significant factor in case of the

export financing. Younger entrepreneurs declare significantly greater interest about the state financial support of the export activities than their older colleagues, but are rarely using them. Younger entrepreneurs are also more informed about this type of the state financial supportive activities, and about the instruments of the reduction or limitation of the business risks in the field of export. The presented findings indicate that the state should focus its attention on the needs of young entrepreneurs, that are better informed and have a significant interest in the support of the export activities. An effective state financial support of the export activities might bring the economic growth and make the economy of the country stronger, more competitive and diversified.

In order to help the older entrepreneurs to get better informed about the export financing, the state may prepare an information campaign about the means of export financing and the usage of these instruments.

While the biggest strength of this research was in the size and the homogeneity of the selection sample, the most important weaknesses are related with the fact that the respondents fulfilled the questionnaire online, and that the research team was unable to organize a more detailed face to face interview with the respondents. The future direction of the presented research will be focused on a comparative analysis of the entrepreneurial perception of the financial and credit risk in a wider geographical area of the V4 countries – the Czech Republic, Slovakia, Hungary and Poland.

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