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## **The X-Factor**

A contemporary study on the determinants and usage of factoring in Sweden

**Authors:**

Pontus Andersson

Matilda Glerup

Jenny Jönsson

Ida Rannestig

**Supervisor:**

Anders Anell

# Abstract

- Title:** The X-Factor. A contemporary study on the determinants and the usage of factoring in Sweden.
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- Course:** FEKH89, Bachelor Degree Project in Financial Management Undergraduate Level, 15 ECTS
- Authors:** Pontus Andersson, Matilda Gleerup, Jenny Jönsson and Ida Rannestig
- Advisor:** Anders Anell
- Key Words:** Factoring, Small and Medium-Sized Enterprises, The Financial Gap, The Incentive-Signalling Theory, The Pecking Order Theory
- Purpose:** This thesis aims to provide an understanding regarding the determinants of the usage of factoring and the perceived attitudes towards factoring. The thesis will also provide a contemporary view of factoring as a financing solution and try to explain the usage in the context of financial theories.
- Methodology:** The thesis uses a quantitative research strategy combined with a mixture of a deductive and inductive approach. The primary data has been collected by using a cross-sectional design, a survey, and is discussed by making descriptive comparisons on the results.
- Theoretical Perspective:** The theoretical perspective is based on financial theories regarding how managers reason when evaluating the financing solutions for their enterprise. The theories used in this thesis are the pecking order theory and the incentive-signalling theory. The thesis also uses fundamental information about factoring.
- Empirical foundation:** The empirics used in this thesis consist of primary data gathered from Small and Medium-Sized Enterprises in Skåne and Blekinge, Sweden. The data was collected from enterprises at Ideon and Företagarna Region Syd. The number of answers from Ideon amounted to 43 and the number of answers from Företagarna Region Syd amounted to 23.
- Conclusions:** The study shows that factoring is not a financial solution preferable by Small and Medium-sized Enterprises and that the current usage of factoring is relatively low. There are indications of a negative attitude towards factoring and that the enterprises prefer other financing solutions when available. We found that the major determinants of the usage of factoring are the maturity of the enterprise and the respondent's perceived knowledge about factoring. The usage of factoring can be explained to some extent by the pecking order theory and the incentive-signalling theory, due to the high costs of factoring and the negative image the usage may entail.

# Abstrakt

- Examensarbetets titel:** X-faktorn. En samtida studie om de avgörande faktorerna och användningen av factoring i Sverige.
- Seminariedatum:** 2016-06-02
- Kurs:** FEKH89, Examensarbete i Finansiering på Kandidatnivå, 15 Höskolepoäng
- Författare:** Pontus Andersson, Matilda Gleerup, Jenny Jönsson and Ida Rannestig
- Handledare:** Anders Anell
- Fem nyckelord:** Det Finansiella Gapet, Factoring, Pecking order-teorin, Små och Medelstora Företag, Signalerings-teorin
- Syfte:** Denna uppsats syftar till att tillhandahålla förståelse kring de bestämmande faktorer som påverkar användandet av factoring och de upplevda attityderna gentemot factoring. Uppsatsen kommer även tillhandahålla en samtida syn på factoring som finansieringsmetod och försöka förklara användandet med hjälp av finansiella teorier.
- Metod:** Uppsatsen använder en kvantitativ forskningsstrategi med en kombination av en deduktiv och induktiv ansats. Primärdata har samlats in med hjälp av en tvärsnittsstudie, en enkät, som därefter diskuterats med hjälp av deskriptiva jämförelser på resultatet.
- Teoretiskt perspektiv:** Den teoretiska utgångspunkten i denna uppsats baseras på två finansiella teorier om hur chefer resonerar när de utvärderar finansieringslösningar för deras företag. De teorier som används är pecking order-teorin och signalerings-teorin. Uppsatsen använder även grundläggande information om factoring.
- Empiri:** Den empiri som används i denna uppsats består av primärdata som samlats in från små och medelstora företag i Skåne och Blekinge, Sverige. Data har samlats in från företag på Ideon och Företagarna Region Syd. Antalet svar från Ideon summerades till 43 och antalet svar från Företagarna Region Syd summerades till 23.
- Slutsats:** Studien visar att factoring inte är en finansiell lösning som föredras av små och medelstora företag samt att användandet av factoring är relativt lågt. Det finns indikationer på en negativ attityd gentemot factoring och att företagen föredrar andra finansieringslösningar när de finns tillgängliga. Studien fann att de främsta bestämmande faktorerna gällande användandet av factoring är företagets ålder samt respondentens upplevda kunskap om factoring. Slutligen kunde användandet av factoring förklaras till viss del med pecking order-teorin och signalerings-teorin, detta på grund av den höga kostnad som är förknippad med factoring samt den negativa bild som användningen kan medföra.

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Lund, 2016-05-30

Pontus Andersson

Matilda Glerup

Jenny Jönsson

Ida Rannestig

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## Abbreviations

SME - Small and Medium-Sized Enterprises

OECD - Organization for Economic Co-operation and Development

SCF - Supply Chain Financing

FRS - Företagarna Region Syd

## Definitions

### Small and Medium-Sized Enterprises

The criteria for being classified as Small and Medium-Sized Enterprises (SMEs) are that the enterprise has less than 250 employees in their staff headcount. In addition to that, the enterprise's turnover has to be lower than 50 million Euro, or the balance sheet total has to be lower than 43 million Euro (European Commission, 2016).

### Factoring

Factoring is a method for obtaining capital tied up in accounts receivables before the debtor's payment is due (Klapper, 2006). The seller sells the receivable to a factor and therefore receives payment from the factor instead of the debtor (International Chamber of Commerce; BAFT; Euro Banking Association; Factors Chain International; International Trade and Forfaiting Association, 2016).

### Debtor

A debtor is "*an entity which owes money under a commercial or financial transaction*" (International Chamber of Commerce, et.al, 2016, p. 79)

### Factor

A factor is "*a financial institution providing factoring facilities*" (International Chamber of Commerce, et.al, 2016, p. 81)

### Seller

A seller is "*a supplier of goods and services*" (International Chamber of Commerce et.al, 2016, p. 89)

## **Supply Chain Finance**

The standard definition of Supply Chain Finance is “*the use of financing and risk mitigation practices and techniques to optimise the management of the working capital and liquidity invested in supply chain processes and transactions*” (International Chamber of Commerce et.al, 2016, p.8).

# 1. Introduction

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*The purpose of this chapter is to provide the readers with the context and background of the subject in the thesis. A defined problem description as well as the research questions that the thesis aims to examine will be presented. The chapter will then set the scope and explain the delimitations for the thesis. Lastly, a disposition of the thesis will be presented to provide an overview of what is to come.*

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## 1.1 Background

The Great Recession in 2008 created severe problems for a lot of enterprises in the OECD countries. The weakening of the economy had a negative impact on many financial institutions, which resulted in a decline in bank lending (OECD, 2016). According to the Organization for Economic Co-operation and Development (2016), these issues were especially severe for Small and Medium-sized Enterprises, hereafter referred to as SMEs. Even though the situation has improved during the last years, the financing situation for SMEs is still a major concern (OECD, 2016) and also one of the most important issues facing SMEs (European Commission, 2016).

In 2015, Företagarna conducted a study amongst SMEs in Sweden in order to examine their ability to access capital. They found that 47 percent of the small enterprises in Sweden found it quite, or very, hard to obtain external financing for their operating activities and investments (Företagarna, 2015). Another study, conducted by The World Bank (2015), showed that more than 50 percent of the surveyed SMEs lacked access to finance. These studies indicate that a financing gap exists amongst SMEs. Carter and Jones-Evans (2006) define the finance gap as “*a situation where a firm has profitable opportunities but there are no, or insufficient, funds (either from internal or external sources) to exploit the opportunity*” (p. 340). This means that there are significant numbers of SMEs who can not obtain financing from the formal financial system even though they could have used it productively if they were available (OECD, 2006).

Since not all SMEs have sufficient internal funding or the possibility to issue equity, the existence of a financing gap highlights the importance of finding new financing solutions for SMEs. The reason for this is that without good financing opportunities, many SMEs become weak and stagnate (The World Bank, 2015). Despite this, studies regarding the subject of SMEs and their available financing solutions have often been focused on traditional financing

solutions (Landström & Andersson, 2003). According to Landström and Andersson (2003) most research done in Sweden focus on, for example, the doubts that investors have when financing SMEs or the dynamics between SMEs and investors on the venture capital markets. Landström and Andersson (2003) say that research with a broader view on financial solutions for SMEs is a research field that has only started to gain popularity more recently.

Supply Chain Finance, hereafter referred to as SCF, is a non-traditional financing solution that has gained more attention lately. SCF consists of several different types of financing solutions, where one of them is factoring (International Chamber of Commerce et.al, 2016). Factoring is a method for obtaining capital tied up in accounts receivables before the debtor's payment is due (Klapper, 2006). There have been some previous studies regarding whether or not factoring could be a way for SMEs to access finance. A study on businesses in the United Kingdom found that small businesses and businesses with difficulties of accessing bank loans were more likely to use factoring as a finance solution than other firms (Summers & Wilson, 2000). This finding was also strengthened by Soufani in 2002. Soufani (2002) found that smaller firms in the United Kingdom, especially limited enterprises and enterprises with financial constraints, were more likely to use factoring as a method of obtaining capital. Bickers (1994), paraphrased in Summers and Wilson (2000) suggested that factoring has gained popularity due to SMEs' problems of obtaining capital from institutional investors as well as an increasing amount of late payments from customers. This creates cash flow problems within the enterprise, which forces the enterprise to turn to non-traditional solutions (Summers & Wilson, 2000). These researches indicate that factoring may be a good alternative for SMEs to bridge the financial gap but, despite these indications, not many enterprises are currently using factoring (Greater London Enterprise Ltd., 2003). This corresponds with a survey conducted by Företagarna (2015), which showed that SMEs in Sweden only use factoring to a very small extent; only 3 percent of the enterprises included in the survey used it. Perhaps, these differences may be explained by enterprises having different opinions regarding factoring than the opinions of the researchers within the field of factoring. However, these are claims for which we have found no supporting evidence.

Even though many studies have been conducted with a supply-sided view, a couple of researches have focused on a more demand-sided perspective on factoring. The Greater London Enterprise Ltd. (2003) did a survey that was partly aimed towards industry associations representing SMEs in Europe. They found that enterprises tend to see factoring as a risky

product that gives an image of the enterprise being in financial difficulties and that factoring is only seen as a financing solution of last resort. They also found that the usage of factoring may be limited due to lack of sufficient knowledge about factoring. The result from the study also indicated that using factoring might harshen the relationship with customers (Greater London Enterprise Ltd., 2003). This corresponds with the findings of a study conducted in New Zealand where accountants' that worked for SMEs were asked about their attitudes towards factoring. The results of the study were that many accountants claimed that they (1) they did not have enough knowledge about factoring to be able to use it and (2) the factoring solution could only be useful as a financial solution of last resort (de Vries & Cameron, 2003).

The number of enterprises classified as SMEs in OECD countries are 99 percent (OECD, 2006) and the numbers are even higher in Sweden. In year 2014, 99.8 percent of the enterprises in Sweden were classified as SMEs (European commission, 2015). Approximately 80 percent of all new jobs in Sweden during the last 10 years were created by enterprises with less than 50 employees (Nasdaq, 2013). SMEs also make an important contribution to innovation, productivity and economic growth within the country (OECD, 2006). All these facts highlight a great importance of ensuring that SMEs are given sufficient financing, which makes researches regarding non-traditional financing solutions for SMEs important.

## **1.2 Problem Description**

According to Landström and Andersson (2003) the research conducted regarding SMEs and financing has mainly been focusing on SMEs and traditional financing methods. The problem with this is that SMEs are not always capable of obtaining traditional financing. This results in a financing gap for SMEs, where the enterprises can not access sufficient capital to grow. The financing gap facing SMEs, combined with the fact that studies within the field of non-traditional financing methods is relatively unexplored, makes it interesting to study one of the non-traditional financing methods; factoring. Klapper (2006), Soufani (2002), Summers & Wilson (2000) and de Vries & Cameron, (2003) are some researchers that have studied the concept of factoring amongst SMEs. The results from these studies provide slightly different results. For example, Summers & Wilson (2000) found that SMEs are more likely to use factoring than other enterprises but de Vries & Cameron (2003) found that factoring solution could only be useful as a financial solution of last resort.

Due to the different results in previous studies, we found it interesting to examine the usage of, and attitudes towards, factoring amongst SMEs in Sweden. To provide our study with more explanatory power, we will also examine whether our findings could be explained by financial theories regarding the determinants of an enterprise's financing decision. The theories that will be used in the thesis are the pecking order theory and the incentive-signalling theory. These theories are chosen since they aim to provide an understanding of which aspects a manager considers when deciding what financing solution to use for his enterprise.

### **1.2.1 Research Questions**

To be able to examine the problem explained above, the following research questions have been formulated:

1. *What does the usage of factoring look like amongst SMEs in Sweden?*
2. *What are the experienced attitudes towards factoring amongst SMEs in Sweden?*
3. *Can the usage of factoring amongst SMEs in Sweden be explained by the pecking order theory or the incentive-signalling theory?*

### **1.2.2 Purpose**

This thesis aims to provide an understanding regarding the determinants of the usage of factoring and the perceived attitudes towards factoring. The thesis will also provide a contemporary view of factoring as a financing solution and try to explain the usage in the context of financial theories.

### **1.2.3 Delimitations**

The delimitation in this thesis is set to SMEs in Skåne and Blekinge. The reason for this delimitation is due to the fact that we study at Lund University and therefore find it interesting to examine the enterprises within this region.

The authors have also decided to limit the research to the definition of factoring used in the publication *Standard Definitions for Techniques of Supply Chain Finance* by the International Chamber of Commerce et.al (2016), a cross-industry initiative to standardize the definitions of SCF. The standardized definition narrows factoring down to the process of selling an invoice

portfolio. This means that methods where the invoice portfolio is only leveraged are not included in the factoring definition that is used in this thesis.

### **1.3 Disposition of the Thesis**

In this section, the authors will provide a brief walkthrough of the forthcoming disposition in the thesis.

The second chapter, *Method*, will provide the readers with an understanding of the research strategy and methodological approach used in the thesis. The chapter will also present the survey design and which samples that have been chosen for the thesis. Thirdly, the chapter will discuss the processing of the data as well as provide a critical review of the method.

The third chapter, *Theoretical Framework*, will outline the fundamentals of factoring as well as two theories, the pecking order theory and the incentive-signalling theory, which explain how managers reason when choosing financial solutions for their enterprise.

In the fourth chapter, *Results*, the data that has been collected for this thesis will be presented. The fifth chapter, *Discussion*, will discuss the three research questions based on the results of the primary data that has been collected. The chapter ends with a discussion about the limitations in the thesis.

The sixth chapter, *Conclusion*, will summarize the main findings in the thesis as well as make a few suggestions regarding what direction any future research could take.

## 2. Method

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*The purpose of this chapter is to describe the approach and strategy for the method used in the thesis. The thesis uses a quantitative research strategy and the research method is based on a cross-sectional design, a survey. The chapter will present how the survey was conducted as well as describe the sample of the thesis.*

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### 2.1 The Research Strategy and Methodological Approach

There are mainly two different research strategies; the quantitative research strategy and the qualitative research strategy (Bryman & Bell, 2015). The research strategy chosen for this thesis is a quantitative research strategy. Within this strategy, a larger number of responses are prioritized over a fewer number of qualitative, in depth answers (Bryman & Bell, 2015). We found that using quantitative data would be preferable since it would reflect a larger proportion of enterprises and also make it possible to generalize the results. Within quantitative research, one thing that is important is the ability to replicate the study. If the study can not be repeated and checked, the validity of the results can be questionable (Bryman & Bell, 2015). To increase the replicability of the thesis, an illustration of the work process is presented below.

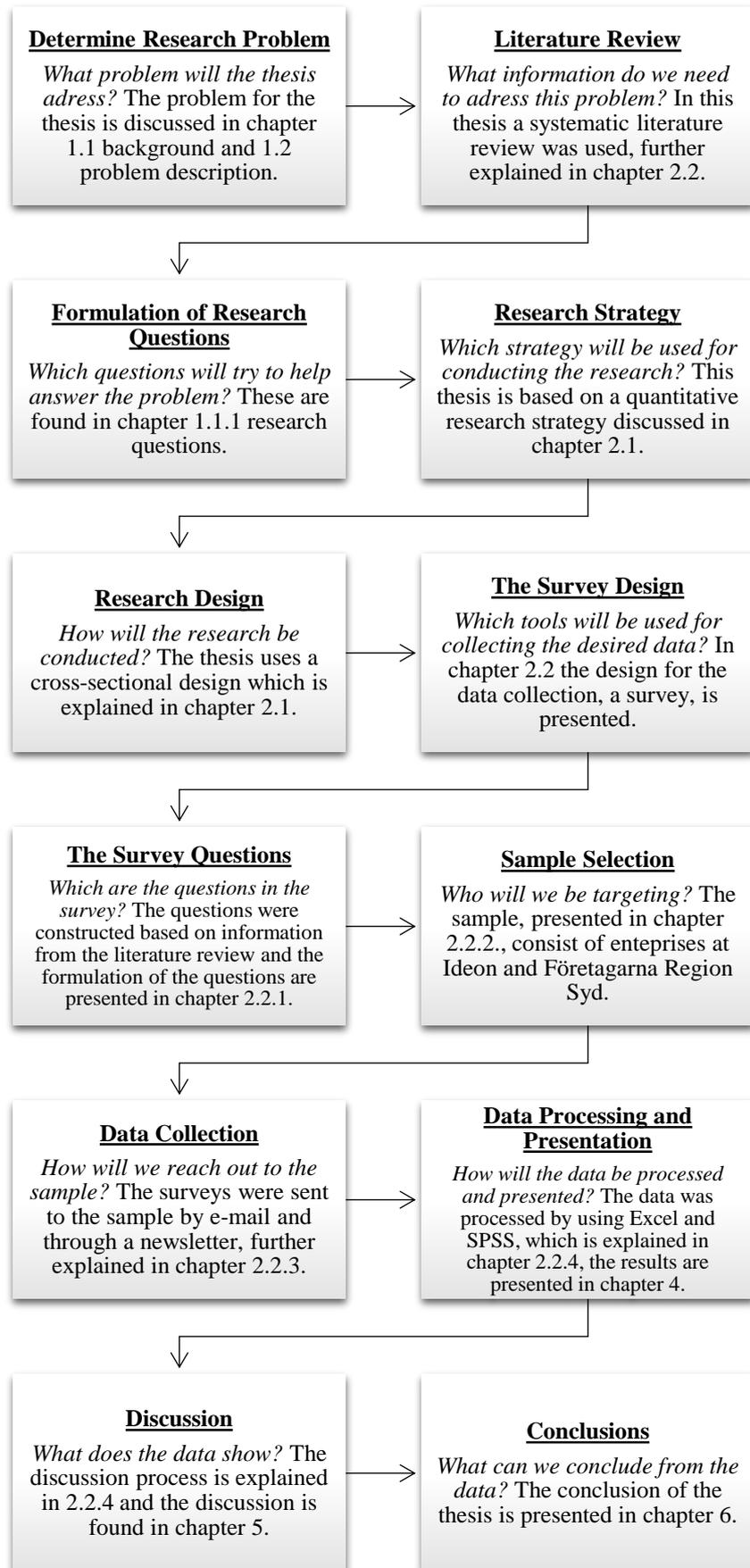


Figure 1: Illustration of the work process in the thesis

After we had decided which research strategy to use, we chose a design for this strategy. A research design is a framework for how the data will be collected and there are five different designs to choose from. These designs are the experimental design, the cross-sectional design (survey), the longitudinal design, the case study design and the comparative design (Bryman & Bell, 2015). This thesis uses a cross-sectional design (survey). This design is chosen since it uses a method for collecting quantifiable data at one particular time which can be compared and drawn conclusions from easily (Bryman & Bell, 2015). We consider this design to be the best fit for our thesis since part of our purpose is to try and make general conclusions based on the results.

Regarding the methodological approach of the thesis, a mixture of two different approaches is used. The cross-sectional design, the survey, is constructed based on a deductive approach. A deductive approach is based on several steps where hypotheses are formulated based on theory. The hypotheses will either be proven right or they will be rejected based on the data that is collected (Bryman & Bell, 2015). Since the questions in the survey are formulated based on information about factoring as well as the financial theories, the pecking order and the incentive-signalling theory, this corresponds with the usage of a deductive approach. The opposite of a deductive approach is an inductive approach, which is used when the authors examine empiricism and tries to draw general conclusions (Bryman & Bell, 2015). An inductive approach is used when the results from the survey is discussed. Since the purpose of this thesis is to draw general conclusions regarding both the usage of, and attitudes towards, factoring, this corresponds with an inductive approach.

## **2.2 The Survey Design**

In this thesis, a survey is used to gather the data. According to Lundahl and Skärvad (1999) a survey is a non-experimental way of asking standardized questions to a large number of respondents. A survey is an optimal way of collecting empirical data and also easy to analyze if they are constructed with closed questions (Lundahl & Skärvad, 1999). Lundahl and Skärvad (1999) mention that, when asking questions, four areas need to be considered in order to get the right information; "*Which questions should be asked and why, how the questions should be formulated, the order in which the questions should be asked and how the answer options should be formulated*" (Lundahl & Skärvad, 1999, p. 173, freely translated by the authors).

Four surveys were created for this thesis. Firstly, one survey was created for each of the samples. Secondly, these surveys were offered in Swedish since the research is carried out in Sweden. The surveys were also offered in English since some of the enterprises might be international. This decision regarding having the survey in multiple languages was made in order to not exclude anyone and to reach as many respondents as possible for the collection of the primary data. The surveys were created on an internet based survey tool called Google Forms, which is a platform used to collect primary data digitally. We decided to begin our survey with questions regarding the characteristics of the enterprise that the respondent is affiliated with. The survey then continued with questions regarding the financial situation of the enterprise. The final part of the survey contained of questions regarding the use of, and attitudes towards, factoring within the enterprise. The reason why we chose to place the question regarding the statements about factoring at the end of the survey is that we consider this question to be most sensitive and time consuming. By placing these questions at the very end of the survey, we were hoping to diminish the amount of respondents that drops out of the survey because of any demanding questions. Since we did not know how well-informed the respondents were regarding the concept of factoring, we also decided to provide them with a brief introduction to the concept of factoring before the questions regarding factoring were presented.

The questions in the survey are constructed based on information gathered from a systematic literature review. A systematic literature review means that specific keywords are used when searching for previous research (Bryman & Bell, 2015). The literature review provided the authors with information regarding the fundamentals of factoring as well as deeper knowledge regarding the pecking order theory and the incentive-signalling theory. This information was then used to create the questions in the survey. To gather information searches were made through the databases EBSCO and Google Scholar, as well as searches in hardcopies of different books.

### **2.2.1 The Survey Questions**

The questions in the survey are based on four different themes. Firstly, the survey consists of two questions with the purpose of eliminating any respondent that do not fall under the definition of a SME. This is done by asking the enterprises about their number of employees

and turnover/balance sheet total. The questions are based on the definitions of SMEs that the European Commission (2016) states.

Secondly, the survey consists of four questions regarding the enterprises' characteristics, which are to be used for comparisons in the result chapter. This segment aims to specify the maturity of the enterprise, the company structure, whether the enterprise is funded by any investment companies, foundations, funds or similar actors, and to which industry the enterprise belongs.

Thirdly the survey consists of two questions regarding the financing situation of the enterprises. Here, we aim to distinguish (1) if the enterprise had experienced any financing difficulties recently, and (2) what the enterprise find as the main reason for their financing difficulties. These questions are asked in order to be able to see whether the sample is in any need of a non-traditional financing solution. Moreover, by asking about the financial situation, it became possible to compare answers regarding attitudes towards factoring depending on the financial situation of the enterprise.

The last section of the survey consists of four questions regarding factoring as a financial solution. The questions aim to determine (1) the respondent's knowledge about the concept of factoring, (2) if the enterprise has used factoring during the past year, and (3) to what degree factoring might be a financing alternative for the enterprise within the next three years. The last question in the survey consist of a number of statements about factoring that the respondents are asked to take a stand on. In appendix 1, the survey in its entirety, including all questions and alternatives, is presented.

In order to receive the correct data for the analysis, closed or scaled questions were used to a greater extent in the survey. Open-ended questions were only used when a few alternatives could not fairly cover the entirety of all possible answers. Closed questions are questions with predetermined alternatives that the respondent can choose from whereas, with open-ended questions, the respondent can answer with his own words (Bryman & Bell, 2015). The reason we chose to use closed questions is that, according to Bryman and Bell (2015), they are easy for the respondent to answer and the answers are easy to analyze and compare. Open-ended questions are, on the other hand, making the processing of empiricism much harder and more time consuming (Lundahl Skärvad, 1999).

The scaled questions in the survey follow the Likert scale. The Likert scale is, according to WebFinance Inc. (2016), “*A method of ascribing quantitative value to qualitative data, to make it amenable to statistical analysis*”. When using the Likert scale, the choices that are given to the respondents are assigned with a numerical value. The means that can be computed from the respondents’ answers are representing an overall attitude towards the asked question (WebFinance Inc., 2016). Since financial situations and factoring are areas that not everyone is familiar with, a neutral alternative on the scale was provided. This was done by having a scale from 1-5, allowing the respondent to answer 3 if he or she wishes to give a neutral answer. When sending out the survey, we did not know if the respondent taking the survey had previous knowledge about all of the questions in the survey, for example the financial situation of the enterprise. Therefore, a decision of offering an alternative of answering “do not know” was made so that respondents would not be confused or left questioning what to answer if they did not know the answer.

### **2.2.2 Sample Selection**

The thesis uses two samples that represent two different populations. A population is defined by Lundahl and Skärvad (1999) as something, or someone, that have the same characteristics. Within a population, studies are usually based on a sample. (Lundahl & Skärvad, 1999). The samples in this thesis are the enterprises located at Ideon in Lund as well as the members of the industry association Företagarna Region Syd, onwards referred to as FRS. The enterprises at Ideon represent the population of entrepreneurs and growth enterprises whilst the members of FRS represent a more diverse population. Since FRS is the largest industry association in Sweden (Företagarna, n.d.a), their members cover a wider spread of industries than Ideon. These populations were chosen in order to see if any differences exist between a population almost solely based on growth companies and a population with a broader set of enterprises. The type of sample selection used in this study is non-randomized. This way of selecting a sample is chosen due to the limited amount of time provided for conducting the thesis. A non-randomized sample is when there is a higher chance for some parts of the population to be part of the sample. A randomized sample is, on the contrary, a sample where all units of the population have the same chance of being selected (Bryman & Bell, 2015).

### ***Ideon***

The reason why Ideon was considered being a good sample for the survey was that Ideon, today, is the most successful venue for entrepreneurs and visionaries in Scandinavia. They are also one of the most successful venues in Europe. Many of the world's leading enterprises associated with Mobile Phone, IT, Cleantech and Life Science (Ideon Science Park, n.d.a), such as Ericsson Mobile Communications, Anoto, Opsi, BioInvent and Axis started their journey at Ideon (Ideon Science Park, n.d.b).

Ideon focuses on obtaining increased and sustainable growth for SMEs through different kinds of programs and educations (Ideon Science Park, n.d.c). They also have an incubator for start-up enterprises (Ideon Science Park, n.d.d), where stimulation for start-up, establishment and growth are provided for the innovators of the enterprises (Ideon Science Park, n.d.e). There are approximately 350 enterprises with different specializations at Ideon. (Ideon Science Park, n.d.b). The business categories at Ideon are Information and Communication Technologies (25 percent), Service (24 percent), Life Science (21 percent), Other High Technology (14 percent), Cleantech (8 percent) and Business Development (8 percent) (Ideon Science Park, n.d.f).

Since innovative SMEs are a vital part of Sweden's future (Edling, Hermansson, Nilsson, & Nordborg, 2007), we found that Ideon would serve as a good option for the sample. Another reason to why we considered Ideon as a good sample is due to the fact that all enterprises at Ideon meets the requirements for SMEs regarding the number of employees (Ideon Science Park, n.d.f).

### ***Företagarna Region Syd***

The reason why FRS was chosen as a sample in the survey is that Företagarna is the biggest industry association for SMEs in Sweden (Företagarna n.d.a). The members of the southern region were chosen due to the limitation of the thesis being set to SMEs in Skåne and Blekinge. The SMEs affiliated with FRS receive benefits such as free legal advice, customized business insurance and discount rates from the partners of Företagarna (Företagarna, n.d.b). On their webpage, Företagarna (n.d.c) makes the following statement:

*“Företagarna creates better conditions to start, run, develop and own enterprises in Sweden. Our job is to promote entrepreneurship, entrepreneurs’ rights and contribute to a climate that makes it easy and attractive to run a company.”* (freely translated by the authors)

Företagarna have 260 different local compounds and meeting places in Sweden, as well as 18 regional offices spread all over Sweden (Företagarna, n.d.c). The members of the southern part amounts to approximately 6000. A predominant number of the members at FRS belong to the industries construction and craftsmanship as well as consulting services (personal communication with Magnus N:son Engelbäck, Regional manager at Företagarna Region Syd 21/4 2016). Since FRS are affiliated with a large number of industries (personal communication with Magnus N:son Engelbäck, Regional manager Företagarna Region Syd 21/4 2016), the authors found that FRS would serve as a good complement to Ideon in order to reach a more diversified range of SMEs since Ideon mainly have enterprises within high-tech industries

### **2.2.3 The Survey Distribution and Reminders**

The survey was sent by email to all the enterprises at Ideon who had public email addresses listed at Ideon’s webpage. The survey to Ideon was open from the 21st of April until the 6th of May 2016 and during this time, three reminders were sent out. To gather primary data from FRS, we contacted Magnus N:son Engelbäck, who is the regional manager for FRS. Magnus N:son Engelbäck could not provide any email addresses for their members. Instead, he agreed to put the link to the surveys in FRS’s newsletter, so that their members could reach it from there. We could not provide any reminders to the members at FRS since no email addresses were obtained. However, Magnus N:son Engelbäck agreed to send out one reminder to the members at FRS during the time that the survey was opened. The newsletter was sent out the 3rd of May and the survey was open until the 13th of May 2016.

### **2.2.4 Processing of Data and Discussion**

The data was collected through Google Forms, which automatically collects all the answers to the questions. The data was then processed and compiled through the programs Microsoft Excel and SPSS. First, the results were presented separately for both Ideon and FRS. This was done in order to show the general results from the different samples and to be able to make general

conclusions based on the survey results. After this, the results from the survey was presented descriptively by comparisons between different characteristics. The comparisons were based on the first two research questions in the thesis.

In the first part of the discussion, the usage of factoring was discussed and compared based on different determinants. Once this was done, different comparisons based on the data was made in order to deduce what the study can conclude regarding the respondents' attitudes towards factoring as a financing solution. Lastly, the responses of the empirical study were analyzed and put in context of the financial theories provided in the theoretical framework.

## **2.3 Critical Review of Research Method**

In this part, we will critically discuss some of the problems with our chosen method and give explanations on how we have tried to handle these problems. Håkansson (2013) state that any research study should discuss how well the study has been conducted. There are a few different aspects that can be considered when discussing the quality of a quantity research, for example replicability, reliability and validity (Salkind, 2006; Saunders, Lewis, Thornhill, 2006 cited in Håkansson, 2013). Bryman & Bell (2015) describes replicability as the possibility for another researcher to repeat the research. We have tried to make the replication of the thesis as easy as possible by putting a lot of effort on describing the method in a systematic and pedagogical way. The survey in its entirety is also provided in appendix 1, which makes it possible for another researcher to replicate it. However, due to the fact that we did not manage to reach out to the members of FRS by ourselves, this might harshen the possibility of replication of the sample.

When using a method based on a survey, the researcher has to deal with problems relating to how the survey is constructed and conducted. For example, surveys can be interpreted differently by different people and there is no possibility to make any further explanations to the respondent regarding the questions (Bryman & Bell, 2015). Therefore, the researcher does not have the possibility to know whether the respondent has understood the question correctly or not. If the respondent has not understood the questions correctly, this will affect the reliability of the study. Reliability deals with how well the measurements are made (Gunnarson, 2002) as well as if there are any unpredictable aspects of the research raising the possibility of random errors that can not be prevented by the researchers (Lundahl & Skärvad, 1999). Since our thesis

is based on a survey, we did not have any possibility of answering any follow-up questions from the respondents. Due to this, the reliability of our thesis might be weakened since we can not ensure that the questions have been understood correctly. However, the alternative would have been to use qualitative approach in order to address the problems of not being able to answer follow-up questions. This would instead lead to the problem of not being able to draw any general conclusions since the number of respondents would have been much fewer. Because of this, we still find the survey design as the best choice for the purpose of this thesis.

Another problem, which is common when using a survey, is to get a sufficient response rate (Bryman & Bell, 2015). This is due to the fact that the researcher can not make sure that everyone in the selected sample takes part of the survey. If the response rate is low, the authors will have a hard time knowing if the answers reflect the average respondent. The possibility to generalize and draw conclusions from the result will also be compromised, which affects the ability to apply the results to a wider population (Bryman & Bell, 2015). This means that the validity of the research is compromised. The validity of the research deals with whether the research reflects reality or not (Lundahl & Skärvad, 1999). To increase the possibility for a good response rate, the time and dates when the emails have been sent to Ideon have been chosen carefully. The survey was sent in the morning in the middle of the week since we believe this time to be less stressful for the respondents. If the email was to be sent during Friday afternoon close to the end of the working week, the receiver would probably not take part in the survey. If there is a chance that the respondent is stressed it is also likely that the survey is rushed through instead of thought through by the respondent. The reminders were also sent out during the morning in the middle of the week, in order to try and increase the response rate even further. Since the survey and the reminder to FRS were sent out by Magnus N:son Engelbäck, we could not influence at what time they were to be provided for the sample.

### **3. Theoretical Framework**

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*The purpose of this chapter is to provide an understanding of the theoretical framework used in the thesis. The chapter first presents the fundamentals of factoring. After this, a couple of financial theories regarding how managers reason when trying to evaluate the financing solutions for their enterprise are presented. The financial theories that are used are the pecking order theory and the incentive-signalling theory.*

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#### **3.1 The Fundamentals of Factoring**

Factoring is a method for obtaining capital tied up in accounts receivables before the debtor's payment is due (Klapper, 2006). The main principles of factoring are that the seller sells their receivables to a finance provider (factor) and obtains part of the invoices' value as an advanced payment from the factor. The debtor thereafter pays the factor the full value of the invoice at due date. When this payment is done, the factor pays the remaining value of the invoice to the seller after subtracting a percentage fee for its services (International Chamber of Commerce et.al, 2016). After the first payment from the factor to the seller, the ownership of the invoice shifts to the factor. To provide further clarification of the method, an example is here presented: an enterprise has an invoice valued at \$20.000 and is in need of capital. The enterprise then offers to sell the invoice to a factor, who makes a credit evaluation and decides whether or not to buy the invoice. Given that the factor agrees to buy the invoice, the seller sells the invoice to the factor and receives an amount of the invoice's value upfront, for example \$15.000. At this point, the seller is not held responsible for making sure that the factor receives the payment from the debtor. When the invoice reaches maturity, the debtor pays the factor the full value of the invoice. The seller of the invoice then receives the remaining \$5.000 minus the factor's fee, for example 2 percent, or \$400, from the factor. This kind of agreement, where the factor assumes the risk of the outstanding payment obligation, is called a non-recourse agreement. There is also a possibility for the factor to make the payment as a recourse-payment, which means the seller of the invoice is legally obliged to compensate the factor if the debtor does not fulfil its payment obligation. However, most of the factoring agreements today are made as a non-recourse agreement (Klapper, 2006).

Factoring is not only a service of collecting invoices. Most factoring companies provide several additional services including for example credit assessments of the seller's customers and other

administrative services (Klapper, 2006; Factoring i Sverige, 2016a). Factoring also changes the collection process of the receivables. When an enterprise sells their receivable to a factor, they outsource the collection process. This means that the enterprise no longer has to put time or resources into collecting the outstanding invoices, since this is dealt with by the factor (Backer, Klapper & Udell, 2014). Moreover, the task of assessing a debtor's creditworthiness is also shifted towards the factor. This results in an outsourcing of the credit assessment to a party which often has better tools for assessing the debtor's credit (Klapper, 2006).

### **3.1.1 How Does the Factor Evaluate the Seller?**

When a factor evaluates the seller, the primary assessment is based on the creditworthiness of the portfolio of receivables that the factor obtains. This means that the factor is not solely reliant on the overall creditworthiness of the seller (Klapper, 2006) Even though the factoring agreement is between the factor and the seller of the invoices, the factor effectively buys the debt of the seller's customers. Because of this, the factor is interested in buying invoices which hold claims towards financially stable enterprises. This means that an enterprise is more likely to be able to sell its invoices if they deal with customers that are considered financially stable. This leads to the fact that a part of the creditworthiness is shifted towards the enterprises' customers (Sherman, 2003).

### **3.1.2 The Cost of Factoring**

Factoring is not a standardized product. The price that a specific enterprise is charged depends on several different aspects, for example on how much risk the factor takes on when buying the invoices from the seller. The risk is evaluated based on aspects like the credit rating of the seller, the amount and value of the invoices received from the seller and the invoices' terms of payment for the customer. An enterprise with a lower credit rating, as well as invoices with lower monetary value and longer terms of payment, will receive a higher price charged for the factoring services. The price is also affected by the collaboration between the factor and the seller. If the enterprise has a longer agreement period and buys more additional services from the factor, the price charged for the services will most likely be lower (Factoring i Sverige, 2016b). The interest rate of factoring services is typically between 2 to 3 percentage points higher than the interest rate for a bank loan (Greater London Enterprise Ltd., 2003). In Sweden, a factor generally charges between 1.5 to 4 percent of each invoice as a fee for its services,

which can be equivalent of an effective rate as high as 36 percent per annum (Factoring i Sverige, 2016c).

### **3.1.3 Limitations to the Usage of Factoring**

In the beginning of this chapter, the principles of factoring were portrayed. In this portrayal, the reader might get the impression that factoring is an alternative for everyone. In practice, however, this is not always the case. Since the cost of the factoring services is based on individual assessments the price may be too high for some businesses.

Another important issue that has to be taken into consideration is that not every debt or invoice can be factored (Greater London Enterprise Ltd., 2003). If the seller is going to be able to sell the invoice, they will have to be the rightful owner of the invoice (Factoring I Sverige, 2016d). Even if the seller is the rightful owner of the invoice, there may be constraints due to terms and conditions between the seller and its customer that prevents the invoice to be sold. An example of this can be portrayed in the construction and technology industries, where invoices may have stage payments and where the payments are tied to obligations in a contract (Greater London Enterprise Ltd., 2003). Since the factor buys the debt from the seller, he wants to ensure that there is a debt to be collected. If the debt is tied to obligations in a contract, the debt may change or not even be collectable if the contract is not fulfilled. For example, if the seller goes bankrupt and therefore can not complete the contract, the full amount of the invoice can not be realized by the factor (Factoring I Sverige, 2016d).

## **3.2 Financial Theories Regarding How Managers Evaluate the Financing Solutions for Their Enterprises**

In this section of the chapter, we will present the two financial theories chosen for the thesis. The two theories are the pecking order theory and the incentive-signalling theory. We will provide an explanation of the key concepts of the two theories, the pecking order theory and the incentive-signalling theory.

### **3.2.1 The Pecking Order Theory**

The pecking order theory explains the financial decisions that are made within an enterprise. The theory assumes that enterprises follow a certain order when choosing amongst different financing alternatives. The theory assumes perfect markets (Myers, 1984). Myers (1984) cites Donaldson (1961), who states that enterprises prefer internal funding in comparison to external funding. Since 1961, the theory has been evolved by Myers and Majluf (1984) who added another factor to the pecking order theory. They implied that the cost of financing increases with asymmetric information (Myers & Majluf, 1984). Asymmetric information occurs between actors on the market since managers hold more information regarding the enterprise's success and its prospects compared to external actors (Myers & Majluf, 1984 cited in Myers, 1984). The financing solutions are chosen in the following order: (1) internal funds, (2) debt and (3) equity (Myers & Majluf, 1984). According to Myers and Majluf (1984) cited in Myers (1984), this order exists due to the fact that enterprises prefer the alternatives that minimize the cost of financing.

Internal financing is the preferable alternative since it does not lead to any costs attributable to asymmetric information between managers and external actors. An example of internal funding is retained earnings or contributions from the owners of the enterprise (Myers & Majluf, 1984). Myers and Majluf (1984) cited in Myers (1984) implies that the size of the internal funds depends on three different aspects: (1) the enterprise's ability to generate cash flow, (2) to what extent the enterprise undertake investments and (3) the enterprise's assets and liabilities. Other alternatives of financing will, according to the pecking order theory, be considered only when internal funds can not cover the enterprise's expenses (Myers & Majluf, 1984).

The next option in the pecking order is external funds. Among the external funds, the first choice of financing is debt (Myers & Majluf, 1984). According to Myers and Majluf (1984), debt is considered to have lower costs and risk than equity funding. The cost that can occur with debt financing is, according to the pecking order theory, due to the existence of asymmetric information between the enterprise and the credit agency. This asymmetric relationship can lead to higher interest rates for the enterprise (Myers & Majluf, 1984). However, the ability of taking on debts also implies that there is a belief that payments of amortizations and interests can be managed, which is a good sign for external stakeholders (Myers & Majluf, 1984).

The last alternative is equity issuing, which is another form of external capital (Myers & Majluf, 1984). The choice of issuing equity relies on whether the managers anticipate the enterprise's stock to be overpriced or not. Equity issuing will only be an alternative if the enterprise's stock is assumed to be overpriced (Myers, 1984). Asymmetric information exists to a greater extent in equity issuing than in debt and internal funding. Investors do not have the same information as the managers regarding the enterprise's success and future prospects (Myers & Majluf, 1984).

This order of financing is, however, only applicable on enterprises that are able to generate external funds or have stocks to trade with. The financing alternatives that SMEs prefer are different to the original pecking order stated by Donaldson (1961) in Myers (1984) and Myers and Majluf (1984). The reason for this is that most SMEs do not have the opportunity to issue equity due to the fact that they are not a public corporation. Another factor is that SMEs may not have the same obligations as publicly traded enterprises to provide public information (financial statements) regarding the enterprise to external stakeholders (Soufani, 2012). This generates a knowledge gap and leads to asymmetric information. Another version of the pecking order, more suited for SMEs, is presented by Soufani (2012). In this version, the order of financing alternatives for SMEs are, (1) entrepreneurs own equity, (2) bank overdrafts, (3) trade credits, (4) bank loans, (5) credit card debt, (6) business angels, (7) leasing and (8) factoring (Soufani, 2012). Issuing equity is not even mentioned in this particular pecking order, due to the fact that many SMEs are unwilling to open up their enterprise for external owners since they fear to lose control of their own enterprise (Soufani, 2012).



Figure 2; Illustration of the extended pecking order theory

### 3.2.2 The Incentive-Signalling Theory

The pecking order theory by Myers & Majluf (1984) suggests that the ranking of financing decision is based on the tradeoff between information and cost. Another theory that explains the reasoning behind managers' choices of financing solutions is the incentive-signalling theory. The incentive-signalling theory tries to explain the choice of capital structure and financing based on the quality it will reflect on the company. Ross (1977) explains that the

incentive-signalling theory shows how managers, by choosing different capital structures, can signal an image of the enterprise to external investors. On the capital market, investors pay attention to the signals that managers send out based on their choice of financial structure. If an enterprise for example issues debt, it signals that the enterprise is performing well and can take on more risk. Due to asymmetric information on the capital market, managers should choose the alternative that signals good future prospects and cash flows (Ross, 1977). Bhattacharaya (1979) also provided a paper on the incentive-signalling theory. In this paper, he explained how using dividends instead of issuing debt can signal future profitability. Consistently high dividends, over a long period of time, can only be used by profitable firms (Bhattacharaya, 1979 cited in Connelly, Certo, Ireland & Reutzel, 2011).

These two researchers present the incentive-signalling theory in two different contexts. However, Connelly, Certo, Ireland & Reutzel presented a paper in 2011 with a broader perspective on the incentive-signalling theory. They found one common denominator of the studies conducted by Ross (1977) and Bhattacharya (1979), as well as other researchers within the field of the incentive-signalling theory. The common denominator was quality. This means that the theory, regardless of the approach, is used to explain how managers can signal quality about their enterprise to external actors (Connelly et.al, 2011).

## 4. Results

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*The purpose of this section is to present the primary data that has been collected from the survey sent to the sample of the thesis, Ideon and FRS. The chapter is divided into three parts. The first part presents the general results from the survey. The second part will make comparisons based on the first research question, “What does the usage of factoring look like amongst SMEs in Sweden?”. The last part will make comparisons based on the second research question, “What are the experienced attitudes towards factoring amongst SMEs in Sweden?”.*

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### 4.1 General Results from the Survey

In this section, the general results from the survey sent out to respondents at Ideon and FRS will be presented. The answers from the Swedish and English surveys from each sample have been combined and are presented as one common result. In conjunction with the different sample’s result, a non-response analysis will be presented.

#### 4.1.1 The Overall Results from the Ideon Survey

The survey was sent out to a total of 260 companies at Ideon and the number of responses received was 48. This adds up to a response rate of 18.46 percent. Five of the collected answers have been cleared from the result since they did not fulfil the criteria of being a SME. Due to technical errors, three of the respondents’ answers on the statements in the last question were not processed correctly. These answers have therefore been treated as “no answer”. Below, a table that presents the enterprises’ characteristics and financial situation as well as the respondents’ attitude towards factoring as a financial solution is shown.

<b>Question</b>	<b>Alternatives</b>	<b>Answers</b>
<b>1. How many employees do You have within Your enterprise?</b>	1-10	74,4 % (32)
	11-50	25,6 % (11)
<b>2. Does Your enterprise have a turnover that exceeds 458,5 million SEK and/or a balance sheet total that exceeds 394, 3 million SEK?</b>	Yes	0 % (0)
	No	100 % (43)
<b>3. For how long has Your enterprise been in business?</b>	Less than 1 year	2,3 % (1)
	1-3 years	27,9 % (12)
	3-5 years	18,6 % (8)
	More than 5 years	52,2 % (22)

<b>4. Which company structure does Your enterprise have?</b>	Public Corporation	9,3 % (4)
	Private Corporation	79,1 % (34)
	Limited Partnership	2,3 % (1)
	Sole Proprietorship	2,3 % (1)
	Other	7,0 % (3)
<b>5. Does your enterprise have access to financing through investment companies, foundations, funds or similar actors?</b>	Yes	14,0 % (6)
	No	83,7 % (36)
	Do not know	2,3 % (1)
<b>6. Which industry does your enterprise belong to?</b>	Cleantech	9,3 % (4)
	Business Development	16,3 % (7)
	ITC	23,3 % (10)
	Life Science	14,0 % (6)
	Service	9,3 % (4)
	Other High Technology	9,3 % (4)
	Other	18,6 % (8)

Table 1: The characteristics of the respondents' enterprise; Ideon

Question	Alternatives	Answers
<b>7. To what degree has your enterprise experienced difficulties in accessing capital from financial providers during the last year?</b> <i>1 = No difficulties at all; 5 = A lot of difficulties</i>	1	51,2 % (22)
	2	14,0 % (6)
	3	16,3 % (7)
	4	9,3 % (4)
	5	9,3 % (4)
	Mean	2,12
<b>7a. What has been the main reason for the difficulties in accessing external capital?</b>		
The difficulties has been due to major competition, the fact that the enterprise is operating in a difficult market, the lack of time to formulate applications, the fact that banks are looking for very great collaterals, the lack of knowledge regarding where to turn in order to access capital and the time it takes vs. the human capital the enterprise can provide.		
<b>8. What knowledge do You have regarding the concept of factoring?</b> <i>1 = Never heard of it before; 5 = Know much about it</i>	1	11,6 % (5)
	2	18,6 % (8)
	3	39,5 % (17)
	4	11,6 % (5)
	5	18,6 % (8)
	Mean	3,07
<b>9. Have your enterprise used factoring solutions during the last year?</b>	Yes	11,6 % (5)
	No	83,7 % (36)
	Do not know	4,7 % (2)

<b>10. To what degree could factoring be an alternative, now or within the next three years, when trying to access capital for your enterprise?</b> <i>1 = Not an alternative at all; 5 = A good alternative</i>	1	53,5 % (23)
	2	34,9 % (15)
	3	7,0 % (3)
	4	4,7 % (2)
	5	0 % (0)
	Mean	1,63

Table 2: The enterprise's financial situation and the knowledge and usage of factoring; Ideon

<b>11. Below are a couple of statements regarding factoring listed. Please fill out to which degree they match with your own opinion.</b> <i>1 = Do not agree; 5 = Completely agree</i>				
Statement	Do not know	No answer	Mean	St.dev
11.1 - Factoring is an efficient way for our enterprise to increase liquidity	32,6%	4,7%	2,56	1,62
11.2 - Factoring is an efficient way for our enterprise to manage risk-exposure	39,5%	4,7%	2,17	1,35
11.3 - Factoring transfers the monitoring of the accounts receivable; when the accounts receivable is sold, our enterprise no longer has to spend time and/or money on making sure the invoices is paid by their customer	32,6%	4,7%	2,96	1,47
11.4 - It is good for us that the factors (the ones buying the accounts receivables from our enterprise) base their credit rating on our invoices rather on our enterprise	55,8%	2,3%	2,94	1,32
11.5 - Factoring is too costly for our enterprise	41,9%	2,3%	3,33	1,41
11.6 - Our enterprise do not have the right conditions to use factoring (e.g. lack of accounts receivable)	25,6%	0,0%	2,31	1,56
11.7 - We do not know enough about factoring to use it as a financing solution	23,3%	0,0%	2,36	1,52
11.8 - We prefer other financing solutions before factoring	27,9%	2,3%	4,20	0,99
11.9 - Factoring is only for enterprises in liquidity crises	27,9%	2,3%	2,47	1,31

Other comments that have been received from the respondents are that they find it very important for customer satisfaction that the invoicing is handled by themselves since the customers trust can be completely lost if the invoicing gets wrong, that factoring is "like a tax on the turnover", that they try to avoid factoring but sometimes are forced to use it due to liquidity that does not keep the same pace as costs and that factoring is idiocy.

Table 3: The statements regarding factoring and other comments from the survey; Ideon

### ***Non-response and Representativeness Analysis for Ideon***

Regarding the representativeness from the Ideon survey, the answers provided by the respondents are evenly distributed among the characteristics of the enterprise. The maturity of the enterprises at Ideon are considered to be representative since the answers cover all maturities evenly except for the maturity of less than a year, where only one response is obtained. This means that we can not draw any further conclusions regarding SMEs that have been operating for less than a year. We have also been able to capture an even distribution among the business categories that are presented at Ideon's webpage. However, the response rate of 18.46 percent is considered to be too low, especially if general conclusions are to be made. This problem will be discussed in chapter 5.4 *Limitations*. A high number of losses in answers can depend on a number of factors. Enterprises often encounter many requests about different surveys by email and due to this they might not be inclined of taking them. They may also have been reluctant to answer the survey if they did not find a survey about factoring interesting. In many cases, survey requests sent out by email often end up in junk mail, which can be one factor that the response rate is low.

#### **4.1.2 The Overall Results from the FRS Survey**

From FRS, 25 answers were received. Due to the fact the survey was sent out as a part of a newsletter to the members of FRS, no response rate can be calculated since we do not know exactly how many enterprises that have noticed the survey. Two of the collected answers have been cleared from the results since they did not fulfil the criteria of being a SME. Below, a table that presents the enterprises' characteristics and financial situation as well as the respondents' attitude towards factoring as a financial solution is shown.

<b>Question</b>	<b>Alternatives</b>	<b>Answers</b>
<b>1. How many employees do You have within Your enterprise?</b>	1-10	91,3 % (21)
	11-50	8,7 % (2)
<b>2. Does Your enterprise have a turnover that exceeds 458,5 million SEK and/or a balance sheet total that exceeds 394, 3 million SEK?</b>	Yes	0 % (0)
	No	100 % (23)
<b>3. For how long has Your enterprise been in business?</b>	Less than 1 year	4,3 % (1)
	1-3 years	4,3 % (1)
	3-5 years	8,7 % (2)
	More than 5 years	82,6 % (19)

<b>4. Which company structure does Your enterprise have?</b>	Public Corporation	4,3 % (1)
	Private Corporation	91,3 % (21)
	Sole Proprietorship	4,3 % (1)
<b>5. Does your enterprise have access to financing through investment companies, foundations, funds or similar actors?</b>	Yes	4,3 % (1)
	No	91,3 % (21)
	Do not know	4,3 % (1)
<b>6. Which industry does your enterprise belong to?</b>	Construction & Craftsmanships	30,4 % (7)
	Energy	8,7 % (2)
	Consulting services	21,7 % (5)
	Technology & Media	4,3 % (1)
	Other	34,8 % (8)

Table 4: The characteristics of the respondents' enterprise; FRS

Question	Alternatives	Answers
<b>7. To what degree has your enterprise experienced difficulties in accessing capital from financial providers during the last year?</b> <i>1 = No difficulties at all; 5 = A lot of difficulties</i>	1	60,9 % (14)
	2	0 % (0)
	3	8,7 % (2)
	4	13,0 % (3)
	5	17,4 % (4)
	Mean	2,26
	<b>7a. What has been the main reason for the difficulties in accessing external capital?</b>	
The difficulties has been due to the fact that the customers do not pay on time or not at all, mistrust against the industry, the bank's increased demands of collaterals or the fact that the bank has not been interested at all.		
<b>8. What knowledge do You have regarding the concept of factoring?</b> <i>1 = Never heard of it before; 5 = Know much about it</i>	1	0 % (0)
	2	17,4 % (4)
	3	17,4 % (4)
	4	30,4 % (7)
	5	34,8 % (8)
	Mean	3,83
	<b>9. Have your enterprise used factoring solutions during the last year?</b>	Yes
No		91,3 % (21)
<b>10. To what degree could factoring be an alternative, now or within the next three years, when trying to access capital for your enterprise?</b> <i>1 = Not an alternative at all; 5 = A good alternative</i>	1	56,5 % (13)
	2	30,4 % (7)
	3	4,3 % (1)
	4	8,7 % (2)
	5	0 % (0)
	Mean	1,65

Table 5: The enterprise's financial situation and the knowledge and usage of factoring; FRS

<b>11. Below are a couple of statements regarding factoring listed. Please fill out to which degree they match with your own opinion.</b> <i>1 = Do not agree; 5 = Completely agree</i>				
<b>Statement</b>	<b>Do not know</b>	<b>No answer</b>	<b>Mean</b>	<b>St.dev</b>
11.1 - Factoring is an efficient way for our enterprise to increase liquidity	30,4%	0,0%	2,81	1,80
11.2 - Factoring is an efficient way for our enterprise to manage risk-exposure	26,1%	0,0%	2,35	1,41
11.3 - Factoring transfers the monitoring of the accounts receivable; when the accounts receivable is sold, our enterprise no longer has to spend time and/or money on making sure the invoices is paid by their customer	26,1%	0,0%	3,59	1,54
11.4 - It is good for us that the factors (the ones buying the accounts receivables from our enterprise) base their credit rating on our invoices rather on our enterprise	47,8%	0,0%	2,92	1,56
11.5 - Factoring is too costly for our enterprise	43,5%	0,0%	4,15	1,52
11.6 - Our enterprise do not have the right conditions to use factoring (e.g. lack of accounts receivable)	17,4%	0,0%	1,42	1,02
11.7 - We do not know enough about factoring to use it as a financing solution	13,0%	0,0%	2,10	1,48
11.8 - We prefer other financing solutions before factoring	17,4%	0,0%	4,42	1,22
11.9 - Factoring is only for enterprises in liquidity crises	13,0%	0,0%	2,55	1,43

*Table 6: The statements regarding factoring and other comments from the survey; FRS*

### ***Non-response and Representativeness Analysis for FRS***

Regarding the representativeness from the FRS survey, the results are not considered to be as evenly distributed amongst the enterprises' characteristics as the results from the Ideon survey. A predominant number of the respondents at FRS have been operating for more than five years. There are only a few number of respondents that have a maturity between three and five years and no one of the respondents have answered that they have been in business for less than three years. This means that we can not say anything regarding the early maturity stage at FRS. The responses from FRS give an indication that the offered alternatives for business industries do

not capture the entirety of industries that the enterprises at FRS belong to, since the alternative “other” is the most chosen alternative. Apart from the alternative “other”, most respondents answered that their enterprise was operating within the industry of either construction and craftsmanship or consulting services. Since most respondents answered “other”, it is hard to say anything regarding the representativeness of the industries at FRS. However, due to the low amount of answers and the fact that most enterprises belong to other industries than the ones offered, the representativeness for any other industry than construction and craftsmanship or consulting services is considered to be low.

The number of responses from FRS is considered to be very low. The main reason for the low number of answers is probably due to the fact that the link to the survey was put on FRS’s newsletter instead of being sent to the enterprises by email. This fact could lead to the problem that some enterprises did not notice the survey. The survey for FRS was also not open during a long period of time which, combined with the fact that only one reminder was sent out to FRS, might be another aspect to why the amount of received answers is low.

## **4.2 Determinants of the Usage of Factoring**

This section will make comparisons connected to the first research question, “*What does the usage of factoring look like amongst SMEs in Sweden?*”. The chapter will be based on question nine in the survey, “*Have your enterprise used factoring solutions during the last year?*”. This question will be compared with the answers from the questions regarding characteristics about the enterprise as well as the enterprise’s financial situation. The respondents that have answered, “Do not know” in question nine have not been included and are treated as missing. Answers from Ideon; n = 41, Missing = 2. Answers from FRS; n = 23, Missing = 0.

In the comparisons based on the usage of factoring, some results showed more differences than others. When comparing the usage of factoring and the maturity of the enterprise, question three, the enterprises answering that they have not used factoring were represented in all maturity categories. Worth mentioning is that out of the seven enterprises who have used factoring during the last year, both at Ideon and FRS, five of them have been in business for more than five years. When comparing the usage of factoring and the enterprises’ business industry, question six, there was no particular industry that used factoring more than others. When comparing the usage of factoring during the last year with (1) the experienced financial

difficulties during the last year, (2) the knowledge of factoring and (3) whether or not factoring could be an alternative within the next three years, some interesting results were found. These are presented in separate sections below.

**4.2.1 The Usage of Factoring and the Experienced Financial Difficulties**

When comparing the usage of factoring and the experienced financial difficulties during the last year, question seven, the respondents at Ideon that have used factoring during the last year are spread amongst the scale from 1-5 regarding the experienced financial difficulties during the last year. Factoring has been used by enterprises with a lot of difficulties (5) as well as enterprises with no difficulties at all (1). The respondents that have not been using factoring are evenly distributed on the scale of financial difficulties.

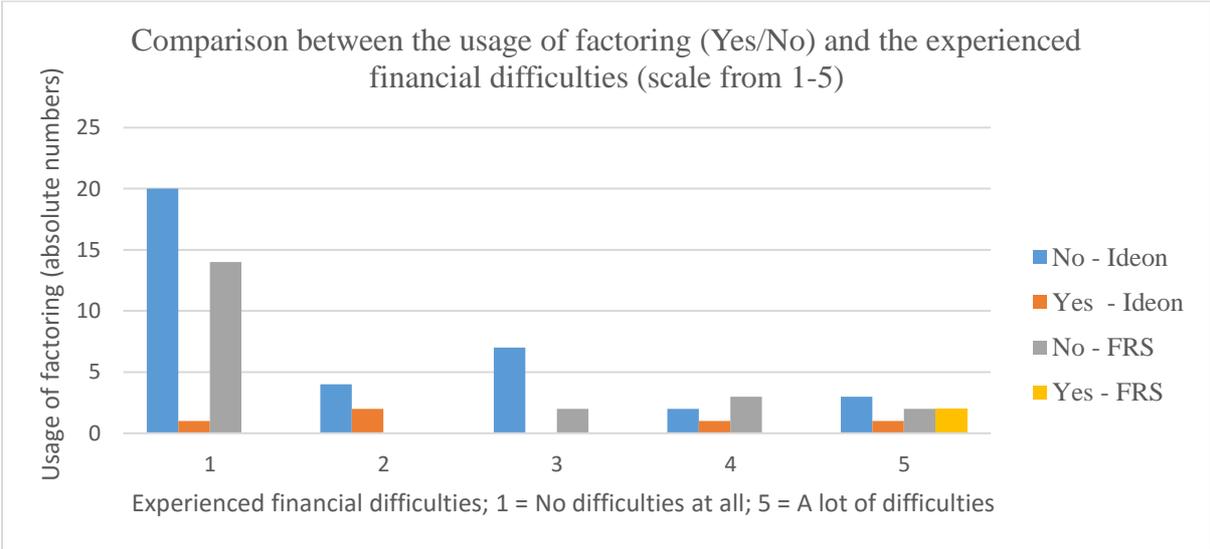


Figure 3: Comparison between the usage of factoring and the experienced financial difficulties

**4.2.2 The Usage of Factoring and the Knowledge of Factoring**

When comparing the answers based on the usage of factoring and knowledge of factoring, question eight, the result showed some differences between Ideon and FRS. The responses from Ideon shows that most of the enterprises that have not used factoring during the last year tend to be neither well- nor uninformed about factoring, whilst the ones that have used factoring tend to have better knowledge. The responses from FRS on the other hand show a better knowledge from both the non-users and the users of factoring. Overall, the perceived knowledge of factoring seems to be quite high at both Ideon and FRS.

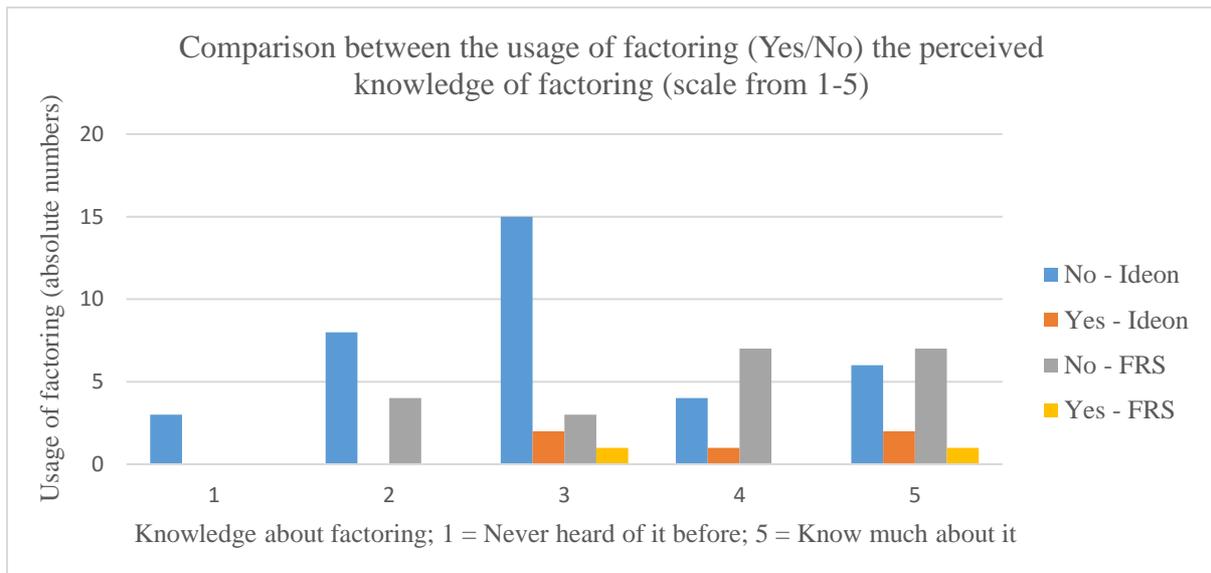


Figure 4: Comparison between the usage of factoring and the perceived knowledge of factoring

### 4.2.3 The Usage of Factoring and Whether Factoring Can Be an Alternative Within the Next Three Years

When comparing the usage of factoring and whether or not factoring can be an alternative within the next three years, question ten, some interesting facts are shown. Those who have used factoring, both at Ideon and FRS, are pretty reluctant to use it again within the next three years. Most of the respondents answered either 1 or 2 on the scale of 1 to 5. This result stands regardless if the enterprise has used factoring before or not, since a predominant number of the respondents that have not used factoring before also answered 1 or 2 on the same question. Another thing we find important to point out is that there is no one that sees factoring as a “good alternative” (5), regardless if they have used factoring before or not.

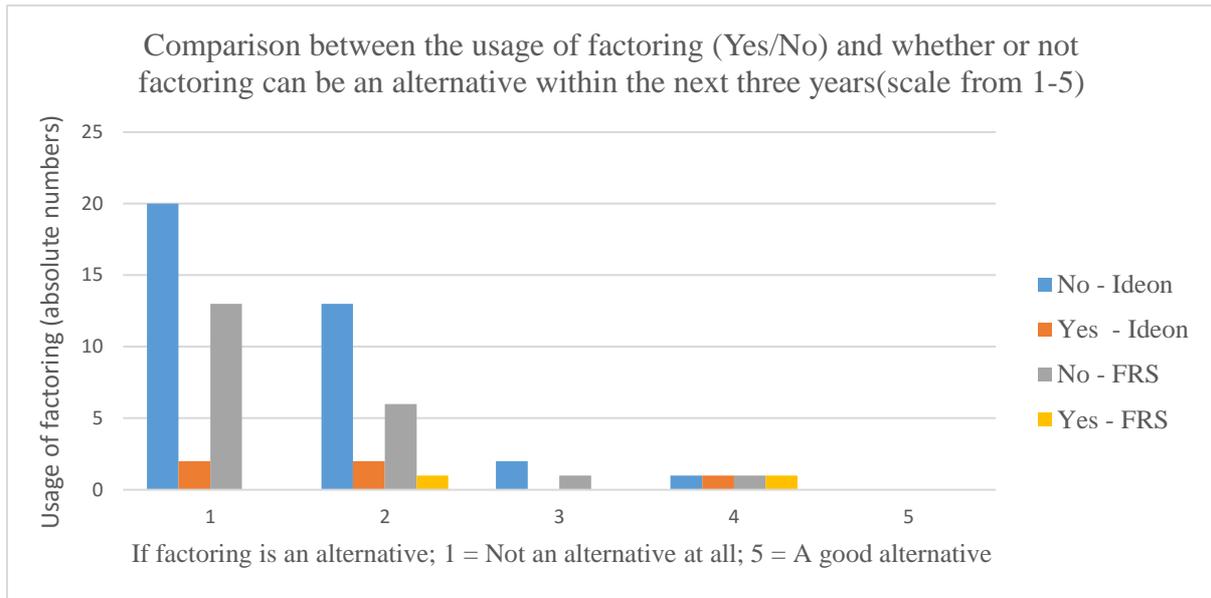


Figure 5: Comparison between the usage of factoring and whether or not factoring can be an alternative within the next three years

### 4.3 The Experienced Attitudes Towards Factoring

This chapter will make comparisons based on the second research question, “*What are the experienced attitudes towards factoring amongst SMEs?*”. The chapter will see how the answers in question eleven, the statements regarding factoring, are distributed when compared with questions seven, eight, nine and ten. The comparisons are only made for those answers where the respondents have answered with a value from one to five on the statements in question eleven. The respondents that have answered “do not know” are not included in the comparison. The scale provided in question eleven ranges from 1 to 5, where 1 represents “do not agree” and 5 represents “completely agree”. A mean has been calculated for the statements based on the comparisons with the different questions.

#### 4.3.1 Financial Difficulties and the Attitudes Towards Factoring

This section will compare the answers in question seven, “*To what degree has your enterprise experienced difficulties in accessing capital from financial providers during the last year?*”, with the statements about factoring provided in question eleven. The respondents have been divided into four groups. The grouping is constructed as follows; if the respondent answered 1 or 2 in question seven they are referred to as “low” and if they answered 4 or 5 in question seven they are referred to as “high”. The respondents that have answered 3 on question seven

are not included since their answer is considered to be neutral. This grouping has been made for both samples; Ideon and FRS, creating four groups. The results from the comparison between the statements and the experience financial difficulties are presented in the table below.

<b>Means of the statements in Question 11 compared with the answers in Question 7, the experience of financial difficulties</b>				
<b>Statement</b>	<b>Ideon</b>		<b>FRS</b>	
	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
11.1 - Factoring is an efficient way for our enterprise to increase liquidity	2.6	2.2	2.6	2.7
11.2 - Factoring is an efficient way for our enterprise to manage risk-exposure	2.2	1.4	2.0	2.9
11.3 - Factoring transfers the monitoring of the accounts receivable; when the accounts receivable is sold, our enterprise no longer has to spend time and/or money on making sure the invoices is paid by their customer	2.8	2.5	3.8	3.1
11.4 - It is good for us that the factors (the ones buying the accounts receivables from our enterprise) base their credit rating on our invoices rather on our enterprise	2.6	3.3	3.0	3.0
11.5 - Factoring is too costly for our enterprise	3.3	3.4	4.0	4.2
11.6 - Our enterprise do not have the right conditions to use factoring (e.g. lack of accounts receivable)	2.1	2.4	1.2	1.7
11.7 - We do not know enough about factoring to use it as a financing solution	2.1	3.2	1.7	2.3
11.8 - We prefer other financing solutions before factoring	4.2	3.8	4.8	3.5
11.9 - Factoring is only for enterprises in liquidity crises	2.4	3.0	2.5	2.7

*Table 7: The statements regarding factoring compared with the experienced financial difficulties*

### **4.3.2 The Knowledge About Factoring and the Attitudes Towards Factoring**

In this section, a comparison between question eight, “*What knowledge do you have regarding the concept of factoring?*”, and the respondent’s viewpoint on the different statements about factoring in question eleven is presented. As before, the respondents are divided into four groups; “high” and “low” for both samples. The grouping is constructed as follows; if the

respondent answered 1 or 2 in question eight they are referred to as “low” and if they answered 4 or 5 in question eight they are referred to as “high”. The respondents that have answered 3 in question eight are not included since their answer is considered to be neutral. This grouping has been made for both the respondents at Ideon and FRS, creating four groups. The results from the comparison between the statements and the knowledge of factoring are presented in the table below.

<b>Means of the statements in Question 11 compared with the answers in Question 8, knowledge about factoring</b>				
<b>Statement</b>	<b>Ideon</b>		<b>FRS</b>	
	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
11.1 - Factoring is an efficient way for our enterprise to increase liquidity	1.0	2.4	1.0	2.8
11.2 - Factoring is an efficient way for our enterprise to manage risk-exposure	1.0	2.1	1.0	2.5
11.3 - Factoring transfers the monitoring of the accounts receivable; when the accounts receivable is sold, our enterprise no longer has to spend time and/or money on making sure the invoices is paid by their customer	1.0	2.6	5.0	3.3
11.4 - It is good for us that the factors (the ones buying the accounts receivables from our enterprise) base their credit rating on our invoices rather on our enterprise	1.0	2.5	-	2.9
11.5 - Factoring is too costly for our enterprise	3.0	3.9	-	4.0
11.6 - Our enterprise do not have the right conditions to use factoring (e.g. lack of accounts receivable)	2.5	1.9	2.0	1.4
11.7 - We do not know enough about factoring to use it as a financing solution	4.5	1.6	3.7	1.6
11.8 - We prefer other financing solutions before factoring	5.0	4.3	5.0	4.4
11.9 - Factoring is only for enterprises in liquidity crises	4.0	2.4	3.0	2.4

*Table 8: The statements regarding factoring compared with the knowledge of factoring*

### **4.3.3 The Usage of Factoring and the Attitudes Towards Factoring**

This section will compare the answers in question nine, “*Have your enterprise used factoring solutions during the last year?*”, with the statements about factoring provided in question

eleven. As before, the respondents are divided into four groups. The grouping is constructed based on whether the respondents have answered “yes” or “no” in question nine. This grouping has been made for both the respondents at Ideon and FRS, creating four groups. The results from the comparison between the statements and the question regarding the usage of factoring are presented in the table below.

<b>Means of the statements in Question 11 compared with the answers in Question 9, usage of factoring</b>				
<b>Statement</b>	<b>Ideon</b>		<b>FRS</b>	
	<b>No</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>
11.1 - Factoring is an efficient way for our enterprise to increase liquidity	1.9	4.5	2.6	4.0
11.2 - Factoring is an efficient way for our enterprise to manage risk-exposure	2.0	1.0	2.3	3.0
11.3 - Factoring transfers the monitoring of the accounts receivable; when the accounts receivable is sold, our enterprise no longer has to spend time and/or money on making sure the invoices is paid by their customer	2.4	2.0	3.5	4.0
11.4 - It is good for us that the factors (the ones buying the accounts receivables from our enterprise) base their credit rating on our invoices rather on our enterprise	2.7	2.0	2.8	3.5
11.5 - Factoring is too costly for our enterprise	3.7	2.5	4.1	4.5
11.6 - Our enterprise do not have the right conditions to use factoring (e.g. lack of accounts receivable)	2.4	1.5	1.4	1.5
11.7 - We do not know enough about factoring to use it as a financing solution	2.3	3.5	2.0	3.0
11.8 - We prefer other financing solutions before factoring	3.9	5.0	4.5	4.0
11.9 - Factoring is only for enterprises in liquidity crises	2.3	2.5	2.4	4.0

*Table 9: The statements regarding factoring compared with the usage of factoring*

#### **4.3.4 Factoring as an Alternative to Access Capital and the Attitudes Towards Factoring**

This section will compare the answers in question ten, “*To what degree could factoring be an alternative, now or within the next three years, when trying to access capital for your*

*enterprise?*”, with the statements about factoring provided in question eleven. As before, the respondents are divided into four groups; “high” and “low” for both samples. The grouping is constructed as follows; if the respondent answered 1 or 2 in question ten, they are referred to as “low” and if they answered 4 or 5 in question ten they are referred to as “high”. The respondents that have answered three in question ten are not included since their answer is considered to be neutral. This grouping has been made for both the respondents at Ideon and FRS, creating a total number of four groups. The results from the comparison between the statements and the question if factoring could be an alternative within the next three years are presented in the table below.

<b>Means of the statements in Question 11 compared with the answers in Question 10, usage of factoring in the future</b>				
<b>Statement</b>	<b>Ideon</b>		<b>FRS</b>	
	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
11.1 - Factoring is an efficient way for our enterprise to increase liquidity	2.1	5.0	2.5	5.0
11.2 - Factoring is an efficient way for our enterprise to manage risk-exposure	1.6	5.0	2.2	3.5
11.3 - Factoring transfers the monitoring of the accounts receivable; when the accounts receivable is sold, our enterprise no longer has to spend time and/or money on making sure the invoices is paid by their customer	2.3	5.0	3.4	4.0
11.4 - It is good for us that the factors (the ones buying the accounts receivables from our enterprise) base their credit rating on our invoices rather on our enterprise	2.2	3.0	2.6	4.5
11.5 - Factoring is too costly for our enterprise	3.5	4.0	4.1	5.0
11.6 - Our enterprise do not have the right conditions to use factoring (e.g. lack of accounts receivable)	2.5	1.0	1.4	1.5
11.7 - We do not know enough about factoring to use it as a financing solution	2.6	2.0	1.7	4.0
11.8 - We prefer other financing solutions before factoring	4.5	1.0	4.5	3.0
11.9 - Factoring is only for enterprises in liquidity crises	2.6	1.0	2.5	3.0

*Table 10: The statements regarding factoring compared with the usage of factoring within the next three years.*

## 5. Discussion

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*The purpose of this chapter is to discuss the results from the survey. Firstly, we will use the data from the general results found in 4.1 and the comparisons conducted in chapter 4.2 in order to discuss the first research question. Secondly, we will discuss the second research question based on the general results found in 4.1 as well as the comparisons made in chapter 4.3. Thirdly, the last research question will be discussed by putting the findings gathered from discussing the first two research questions in context of the chosen theories. The last part of the chapter contains a discussion about the limitations in the thesis.*

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### 5.1 What Does the Usage of Factoring Look Like Amongst SMEs in Sweden?

In this part of the chapter, we will discuss the first research question, the usage of factoring, based on the answers gathered from our survey. We will also make a comparison between our results and information gathered from previous studies found in chapter one, as well as the information presented about factoring found in chapter three. This will be done in order to see whether there are any similarities or contradictions when it comes to the usage of factoring.

Regarding the overall usage of factoring amongst the enterprises, most of the respondents' enterprises have not used factoring during the last year. Only 11.6 percent at Ideon respective 8.7 percent at FRS have used it. This adds up to a weighted average of 10.6 percent, which is a higher percentage than the previous study conducted by Företagarna in 2015 showed. This might indicate that the usage of factoring is not as low as it used to be. However, the differences might also be a product of different samples and response rates between our survey and the survey conducted by Företagarna.

Based on the question to whether or not the respondents could see factoring as a useful financing solution within the next three years, the respondents' answers were quite unanimous. 88.4 percent at Ideon and 86.9 percent at FRS answered 1 or 2 on the question, only 4.7 percent of the respondents at Ideon and 8.7 percent at FRS answered 4 and no one answered 5. This means that most of the respondents do not see factoring as a financing solution for their enterprise within the next three years. When comparing the usage of factoring with the question regarding if the respondent would consider factoring as an alternative within the next three years, another

interesting fact is presented. Out of the seven enterprises that have used factoring during the last year, five have answered that factoring would not be an alternative for them within the next three years.

Based on the data provided by our survey we can not see any differences regarding the usage of factoring between our two populations; growth enterprises and entrepreneurs at Ideon and the more diverse span of enterprises at FRS. Both of the populations have the same views regarding the usage of factoring; they seem to agree that factoring is not a solution for their enterprises.

### **5.1.1 Determinants of the Usage of Factoring**

In this section, we will discuss whether or not any determinants exist that can explain the usage, or non-usage, of factoring. The determinants that will be discussed are the characteristics of the enterprise, which are defined as the maturity and industry of the enterprise, as well as the financial situation of the enterprise and the respondents' knowledge about factoring.

#### ***The Characteristics of the Enterprise***

From the result in the comparison of the usage of factoring and the enterprise's maturity, we can conclude that one maturity category has a predominant number of respondents answering "yes" regarding the usage of factoring, both at Ideon and FRS. A total number of seven enterprises answered that they have used factoring during the last year and five of these enterprises have been in business for more than five years. This indicates that factoring is used to a greater extent by enterprises that have been in business for a longer period of time.

Regarding the comparison between the usage of factoring and the type of industry the enterprise belongs to, there is no specific industry that stands out or indicates a greater usage of factoring. When comparing these findings with the limitations of factoring presented in chapter 3.1 *The fundamentals of factoring*, a discrepancy can be found. The report by Greater London Enterprise Ltd. states that factoring may not suit all businesses and that, for example, technology industries are one of the businesses for which factoring is not suitable. However, the result from our survey shows that the industry of the enterprises is not a determinant of whether or not the enterprise has used factoring during the last year. Instead, the ones that have used factoring are spread amongst several industries, including technology industries, which

indicates that it might be possible for most industries to use factoring. This finding therefore contradicts the claim that factoring does not suit every industry.

### ***The Financial Situation of the Enterprise***

Previous studies conducted by Summers and Wilson as well as Soufani stated that one of the reasons as to why factoring could be a good financing solution is that it allows enterprises experiencing financial difficulties to access capital. If the enterprises are not experiencing difficulties in accessing capital, the enterprises may not have the same urge to seek other financing solutions such as factoring. Because of this, the usage of factoring will be affected by the degree to which SMEs are experiencing financial difficulties. When the respondents at Ideon were asked to what extent they have experienced any financial difficulties during the last year, 51.2 percent answered that they had not experienced any difficulties at all. Only 9.3 percent answered that they have experienced a lot of difficulties. When the same question was asked to the members at FRS, 60.9 percent answered that they have not experienced any difficulties at all and only 17.4 percent answered that they have experienced a lot of difficulties. These results indicate that the overall financial gap for SMEs is not as large as previous studies indicate. For example, the report made by The World Bank found that over 50 percent of the enterprises experienced difficulties when trying to obtain external capital. The result regarding the financial difficulties in this study is much lower.

For those respondents who answered that they have experienced financial difficulties during the last year, most of them answered that the reason for their difficulties were due to problems with getting a bank loan approved or lack of time and/or resources to formulate applications. Summers and Wilson found that limited access to a bank loan was one of the main reasons that SMEs could not access capital. This means that our respondents' difficulties in accessing capital correspond with the findings of Summers and Wilson. However, out of the 15 respondents that answered that they have difficulties accessing capital, ten of them have not used factoring solutions during the last year. This indicates that the respondents, even though they experience a lot of financial difficulties, do not see factoring as an option to access capital.

When looking at the actual usage of factoring amongst the respondents Ideon and FRS, a total number of seven respondents answered that their enterprise has used factoring during the last year. Four of these respondents have answered 4 or 5 on the question regarding if they have

experienced any financial difficulties during the last year, whereas the remaining three has answered 1 or 2. This means that a small majority of the respondents that have used factoring during the last year also claim to have experienced financial difficulties. However, since there are almost as many respondents that have used factoring without experiencing financial difficulties, we can see no clear conjunction between the usage of factoring and the financial state of the enterprise. The respondents that have not used factoring are evenly distributed on the scale of financial difficulties, which indicates that the decision not to use factoring also is independent of the perceived financial difficulties.

### ***The Respondents' Knowledge About Factoring***

Both a report conducted by Greater London Enterprise Ltd. and a study presented by de Vries and Cameron stated that one reason that enterprises did not use factoring was due to lack of knowledge about the subject. However, these findings do not correspond with the results from our survey. Based on the question regarding the respondents' knowledge about factoring, the average answer was 3.07 at Ideon and 3.83 at FRS. This means that the average respondent at FRS seems to know quite a lot about factoring whilst the average respondent at Ideon consider himself to be neither particularly well- or uninformed to the subject. When comparing the usage of factoring with the respondents' knowledge about factoring, the result still stands. This shows that, even when the respondents are divided into users and non-users of factoring, the statement that a general lack of knowledge exists is contradicted by our results.

Out of the seven respondents at both Ideon and FRS that have used factoring during the last year, four respondents consider themselves to have good knowledge about factoring. The remaining three are considering themselves to be neither well nor uninformed. None of the respondents that have used factoring consider themselves to be uninformed of the concept. This leads to the fact that knowledge seems to be a determinant of the usage of factoring; you do not want to use factoring if you do not have any knowledge about it. However, what should be noted is that these responses only reflect the respondents' own perception of their knowledge, which makes this a highly subjective statement.

### **5.1.2 Main Findings Regarding the Usage of Factoring**

Not many of the respondents have used factoring during the last year. However, the results from our study show a higher use than what the previous study conducted by Företagarna does. Also,

most respondents do not see factoring as a financial solution for their enterprise within the next three years and among those who have used factoring during the last year, a clear majority do not want to use it again. The respondents do not experience a financing gap to the same extent as previous studies by both Företagarna and The World Bank show. For those enterprises that do experience a financing gap, the major reasons seem to be due to problems with getting a bank loan approved or lack of time and/or resources to formulate applications. The respondents seem to have fairly good knowledge about the concept of factoring on average. We can not find any clear discrepancies between our two populations; growth enterprises and entrepreneurs at Ideon and the more diverse population at FRS. Regarding the determinants of the usage, the following can be concluded:

- The usage of factoring seems to be dependent on the maturity of the enterprise. Factoring is being used to a greater extent by enterprises that have been in business for a longer period of time. The usage also seems to be dependent on the knowledge regarding the concept of factoring. No respondent that have used factoring during the last year have considered themselves to be uninformed regarding the concept.
- The usage of factoring does not seem to be dependent on the specific industry that the enterprise belongs to. The usage is evenly distributed amongst the different industries. It does not seem to be dependent on the experienced financial difficulties within the enterprise either. Factoring has been used by enterprises with a lot of financial difficulties as well as by enterprises with no difficulties at all.

## **5.2 What are the Experienced Attitudes Towards Factoring Amongst SMEs in Sweden?**

In this part, we will discuss the results regarding what attitudes the respondents have towards different statements about factoring. We are also going to discuss whether the attitudes differ depending on different determinants. The results on each statement will be discussed separately in order to see if any similarities or contradictions can be found with the previous studies presented in chapter one or the information presented about factoring in chapter three.

*Statement 11.1 - Factoring is an efficient way for our enterprise to increase liquidity*

Based on the responses gathered from the survey, neither the respondents from Ideon nor FRS agrees to the statement that factoring is an efficient way of increasing liquidity. The average response at Ideon was 2.56 and the average response at FRS was 2.81, which indicates that the respondents do not see factoring as an efficient way to increase the liquidity. The same results can be found when comparing the statement with the financial difficulties. Regardless of the financial state of the enterprise, the respondents did not agree to the statement. However, some contradictions to these findings are seen when the statement is compared with whether or not the enterprise had used factoring, or could see it as an alternative within the next three years. If the enterprise had used it, or considered it as an alternative, they agreed to the statement to a greater extent. This indicates that the liquidity aspect plays a significant role when deciding whether or not to use factoring. Since the majority of the respondents did not see factoring as an efficient way of increasing liquidity, this might provide an explanation as to why factoring is not used to a greater extent.

*Statement 11.2 - Factoring is an efficient way for our enterprise to manage risk-exposure*

Regarding the statement that factoring is an efficient way for enterprises to manage risk-exposure, the results show that both the respondents Ideon and FRS disagree to this statement in general. The average response at Ideon was 2.17 and at FRS it was 2.35. Klapper states that when the factor buys the invoice from the seller, the factor also assumes the risk for the outstanding payment. This means that the risk of not getting paid transfers from the seller to the factor, which should be considered beneficial for the seller. Still, even though transferring risk should be considered as a positive aspect of factoring, the comparison between usage of factoring and statement show that the respondents from Ideon did not agree with the statement and that the enterprises at FRS were neutral to the subject. However, when instead comparing the statement with the question regarding if the enterprises saw factoring as a financing solution within the next three years, the attitude changed radically for the respondents at Ideon. In this comparison, the respondents from Ideon agreed completely to the statement, which indicates that some of the ones considering using factoring within the next three years sees the managing of risk-exposure as one of perks of using factoring.

*Statement 11.3 - Factoring transfers the monitoring of the accounts receivable*

Regarding the statement that factoring transfers the monitoring of the accounts receivable, the average respondent at Ideon was neutral to the statement and that the average respondent at

FRS tended to agree. This results stands even when comparing the statement with the usage of factoring. However, one comment received by a respondent was “*It is very important for customer satisfaction that the invoicing is handled by ourselves since the customers’ trust can be completely lost if the invoicing goes wrong*”. This comment corresponds the findings of Greater London Enterprise Ltd., that found that transferring the monitoring process of the receivables might harshen the relationship with the customers.

*Statement 11.4 - It is good for us that the factors base their credit rating on our invoices rather on our enterprise*

The respondents at Ideon and FRS seem to have an overall neutral attitude to this statement, regardless of any comparisons between different determinants. Because of this, the conclusion that can be made is that the respondents no not have any clear opinion regarding this statement. They seem to neither agree nor disagree to the fact that it is beneficial for them that the credit rating is based on their invoices rather than solely on their enterprise.

*Statement 11.5 - Factoring is too costly for our enterprise*

When it comes to the statement regarding the cost of factoring, the respondents at both Ideon and FRS tend to agree to the statement. This indicates that the respondents find factoring too costly. When comparing this with the level of knowledge, the level of financial difficulties and whether factoring could be an alternative in the future we see the same results. The only small difference is seen in the comparison between whether the enterprise has used factoring or not. In this comparison we can see that the companies at Ideon that have used factoring did not see factoring as too costly whereas the companies at FRS that have used factoring see it as too costly. The reason for the different views regarding the cost of factoring may be because of the respondents having different opinions regarding what is considered costly. However, it may also be due to the way that the factoring services are priced. Factoring is not a standardized product and the price varies depending on the riskiness of the enterprise’s financial situation as well as the riskiness of the invoice portfolio. As stated in chapter three, a Swedish factoring company charges on average between 1.5 and 4 percent of the invoice’s value, which is a rather large span. This means that the actual cost for a specific enterprise and its invoice portfolio can not be precisely calculated without contacting a factor. Regardless, it can be considered highly unlikely that all enterprises participating in the survey are aware of the actual cost that would be attributable to a set of specific invoices. This means that their claim of factoring being too

costly must be based on a self-developed calculation or a generalization regarding the cost of factoring.

*Statement 11.6 - Our enterprise does not have the right conditions to use factoring*

One aspect in this statement is the fact that not all enterprises have invoices to sell, either due to lack of invoices or due to constraints in contracts relating to the payment of the receivable. Neither the respondents at Ideon nor the respondents at FRS agreed to the statement. This means that the respondents do not see this aspect as a constraint for them not to use factoring.

*Statement 11.7 - We do not know enough about factoring to use it as a financing solution*

Corresponding with findings in 5.1.1 regarding the respondents' knowledge of factoring, the majority of the respondents claim to have an adequate understanding of factoring to use it as a financial solution. However, one interesting result is that the respondents at FRS who see factoring as an alternative within the next three years claim that they do not have enough knowledge to use it. In other words; the respondents which were open to use factoring as a financing solution were uncertain to whether they had sufficient knowledge to use it. This can be seen as a result which supports the claim from Greater London Enterprise Ltd., that one potential barrier for the use of factoring among SMEs is the lack of knowledge amongst the enterprises. Also worth noting is that the respondents, at both Ideon and FRS, whom had used factoring before, did not confidently claim to have an adequate understanding of factoring. This might indicate that a factoring agreement is more complex than what an enterprise may believe.

*Statement 11.8 - We prefer other financing alternatives before factoring*

The results from this statement support the discussion in 5.1.1 since the respondents strongly agree with the statement. The result stands when compared with whether the enterprise has used factoring. The enterprises that had used factoring still strongly prefer other financial solutions before factoring. This indicating that the enterprises at some point have been compelled to use it, but they still have a strong preference of other financial solutions. This corresponds with the findings of both Greater London Enterprise Ltd. and de Vries & Cameron, which found that enterprises tend to see factoring as a solution of last resort. When comparing the statement with the financial state of the enterprise, enterprises that have experienced financial difficulties tend to agree less to the statement than the enterprises that have not experienced difficulties. The conclusion of this is that the enterprises that have financial difficulties are more compelled to use factoring, than the ones that do not have any financial difficulties.

### *Statement 11.9 - Factoring is only for enterprises in liquidity crises*

According to the report by Greater London Enterprise Ltd., factoring gives the enterprise an image of being in financial difficulties. When looking at the results from this statement some interesting differences are found. The overall result is that neither the respondents at Ideon or FRS agree with the statement. Though, when dividing the respondents into groups based on degree of knowledge the respondents having little knowledge agree to the statement. The respondents that have answered that they have good knowledge, on the contrary, do not agree to the statement. This is interesting because of the vicious circle it may create; since the ones with little or no knowledge think of factoring only as a solution for enterprises in liquidity crises, they will most likely not use factoring and by that be able to change their perception.

### **5.2.1 Main Findings Regarding the Attitudes Towards Factoring**

The respondents seem to have an overall negative attitude towards factoring as a financing solution. They tend to disagree or be neutral to the statements that are considered to reflect some of the positive aspects of factoring, *“Factoring is an efficient way for our enterprise to increase liquidity”*; *“Factoring is an efficient way for our enterprise to manage risk-exposure”*; *“Factoring transfers the monitoring of the accounts receivable”* and *“It is good for us that the factors base their credit rating on our invoices rather on our enterprise”*. They also tend to fully agree to the statement that is considered to reflect one of the negative aspects of factoring, *“Factoring is too costly for our enterprise”*. Apart from this, we have received comments such as *“factoring is idiocy”* and *“factoring is like a tax on the turnover”* that further strengthens the indication of a negative attitude. The strongest opinions are found in the statements *“Factoring is too costly for our enterprise”* and *“We prefer other financing alternatives before factoring”*, where the respondents unanimously agree to the statements.

### **5.3 Can the Usage of Factoring Amongst SMEs be Explained by the Pecking Order Theory or the Incentive-Signalling Theory?**

In this chapter, we are going to discuss whether or not our findings in chapters 5.1 and 5.2 can be explained by the pecking order theory and the incentive-signalling theory. We will start by putting our findings in the context of the pecking order theory. After that we will discuss our findings based on the incentive-signalling theory.

### **5.3.1 The Pecking Order Theory**

According to Soufani's extended version of the pecking order theory, factoring is a financial solution that is considered to come far down the pecking order. The pecking order theory suggests that financing alternatives are prioritized based on their costs. Asymmetric information plays a significant role in the theory, since it states that the cost of the financing alternative increases when there is a strong asymmetric relationship. However, our survey did not provide any data that allowed us to analyze the asymmetric relationship between the factor and the seller. Because of this, our discussion will solely focus on the cost of the financing solutions. The Greater London Enterprise Ltd. states that the fee a factor normally charges is approximately between 2 to 3 percentage points higher than the interest rate for a bank loan. This means that, given the same information relationship between the parties, a factoring agreement will be costlier than, for example, a bank loan. Due to this, other financing alternatives that are less costly for the enterprise will be favored over factoring when they are available. The data gathered in this study suggests that this view is shared by the enterprises. A clear majority of the respondents claim that they prefer other financing alternatives and that factoring is too costly to be a viable financing solution for their enterprise. This strengthens the view that factoring is placed far down in the pecking order, which corresponds with the extended pecking order theory that Soufani outlined in 2012.

The picture of factoring as a costly alternative might also be enhanced by the vicious circle that the usage, or non-usage, of factoring creates. Since factoring is placed far down in the pecking order, it will only be used when better financing alternatives can not be used. This can result in factoring appearing as costlier than it actually is. Factoring is, as stated before, a non-standardized product where the price amongst other things depends on how much risk the factor takes on when buying the seller's invoices. However, since the solution is placed far down in the pecking order, it is used mainly by those enterprises that can not access capital elsewhere. Since these enterprises probably are affiliated with a greater risk than other enterprises, they may receive a higher cost than enterprises with better conditions would. Therefore, a higher price may be charged on the invoices. A comparison between different interest rates for a bank loan can help explain this problem. When an enterprise is perceived by the bank to be a risky project, the enterprise receives a higher interest rate than they would have received if the bank would not have seen them as risky. The same goes for factoring. The difference, however, is that bank loans are being used to a greater extent by the non-risky enterprises as well, which improves the image regarding the cost of a bank loan. The fact that the non-risky enterprises do

not use factoring as much as the risky enterprises can create an unfair image of the cost of factoring, since only the higher costs are realized. This leads to the fact that the financially strong enterprises do not want to use factoring and by that, the image of factoring as too costly may remain unchanged.

From this discussion, we can conclude that factoring can be explained by the principles of the pecking order to some extent. We have seen that the respondents prefer other financing solutions to a greater extent which can, according to the pecking order theory, be explained by the high usage costs that factoring is affiliated with. However, the cost of factoring is not the only determinant that can explain the usage, or non-usage, of factoring. We will now move on to another aspect that might be able to explain the usage of factoring; the incentive-signalling theory.

### **5.3.2 The Incentive-Signalling Theory**

According to the incentive-signalling theory, an enterprise does not base their financial decision, and capital structure, solely on the cost of the different financing alternatives. The decisions are also based on the fact that different financing methods signal different quality and that the enterprises seek to use the solutions that signal the largest amount of quality to external actors. Our overall result shows that factoring seems to have a rather bad reputation amongst the enterprises. The majority of the respondents said that they preferred other financing solutions before factoring and that they did not want to use factoring within the next three years. Furthermore, a comment received from one of the respondents indicated that they tried to avoid factoring but sometimes were forced to use it due to liquidity that does not keep the same pace as costs. All of these findings suggest that factoring is not seen as a good financing alternative by the respondents.

Another finding from the survey is the fact that the enterprises that had little or no knowledge of factoring tended to see the solution as only for enterprises in liquidity crises. Due to the way enterprises choose financing solutions based on the incentive-signalling theory, this means that enterprises with little or no knowledge of factoring does not want to use factoring due to the bad image they think it will give. Since they do not consider factoring an alternative, it is highly unlikely that they will seek a deeper understanding of the concept. Because of this, their image of factoring as a solution only for enterprises in liquidity crises will remain unchanged. Based

on this discussion, the incentive-signalling theory can provide an explanation to the limited usage of factoring. Because of the image that the usage of factoring sends out, the enterprises that have a bad attitude towards factoring will think that it signals bad quality to the external actors and will therefore be reluctant to use it.

## **5.4 Limitations**

Regarding the limitations of our thesis, the major issue is regarding how well the results can reflect a wider population. The authors are well aware that, to be able to generalize the conclusions, the thesis would have needed a bigger and more representative number of responses. Since the number of responses from the surveys is low, it is questionable how well the results can reflect a larger population. Another limitation is that only a very small amount of the respondents had used factoring during the last year. This creates a bias towards the respondents that have not used factoring. We only received answers from seven enterprises that had used factoring and because factoring is not a standardized product and different users therefore probably have different experiences makes it hard to draw any wider conclusions from such a low number of respondents.

Regarding the skewness related to the answers from the respondents, another threat to the validity is that we received a quite high rate of “do not know” answers on the statements. Due to this, the discussion regarding the statements is based on an even smaller number of respondents since the “do not know” answers are not included in the calculated means. Since the validity of the research deals with how well the study reflects reality, the low number of responses at the statement questions will make it hard for us to say that our study can reflect a wider population. The bias towards some industries is also related to the difficulties of generalizing the results. Since we did not manage to reach that many different industries, the major part of the answers are either from high technology, construction and craftsmanship or consulting services.

The survey was sent out in a rather early stage of the thesis in order to be able to generate as many responses as possible. However, during the following time we realized that the survey did not cover some important aspects and that the formulations for some question could have been improved. We did not for example explicitly ask whether factoring gives the company a bad image or questions that would have allowed us to analyze the information asymmetry

between the enterprise and the factor. We also realized that some questions may be hard to interpret for the respondent. One example is the different formulation of statement *11.3 - Factoring transfers the monitoring of the accounts receivable*. The other statements ask the respondents to agree or disagree whether something is good or not for their enterprise. The formulation in 11.3 only states an objective fact and does not contain a subjective element.

Another problem regarding the reliability of our thesis is that attitudes are hard to analyze. This creates a problem since the one of the most important questions in the survey are based on attitude questions. Since statements can be interpreted differently by different people and we do not have any possibility to explain the statements further, we can not guarantee that the respondent has understood the statement correctly. All of the issues mentioned in this section will affect the conclusions that can be drawn based on the results from the survey.

## 6. Conclusion

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*The purpose of this chapter is to provide the readers with the conclusions that can be drawn from the study. The chapter will also provide the readers with suggestions regarding what directions further research can take.*

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The purpose of this thesis is to provide an understanding regarding the determinants of the usage of factoring and the perceived attitudes towards factoring. It will also provide a contemporary view of factoring as a financing solution and try to explain the usage in the context of financial theories. From our study, we can see that factoring is not a financial solution that SMEs prefer. The results from this study indicate that there still is a relatively low usage of factoring. The main determinants for the usage of factoring seem to be the maturity of the enterprise as well as the respondent's knowledge about factoring. The perceived financial difficulties and the enterprises' industry-affiliations did not seem to have any substantial effect on the usage. Another thing that we found is that the main reason for the non-usage of factoring seems to be the cost of factoring. Furthermore, a clear majority of the respondents provided an overall negative attitude towards the usage of factoring as a financial solution. The negative attitude was reflected in the fact that many of the respondents did not agree, or were neutral, to the positive aspects of factoring whilst they agreed fully to the negative aspects. The negative attitude was strengthened even further by a comments received from one of the respondents in the survey, who commented that "*factoring is idiocy*". This suggests that the general opinion is that factoring is not seen an effective financing solution, corresponding with factoring being placed far down in the extended pecking order theory. The negative attitude towards factoring does also indicate that the incentive-signalling theory can explain the restricted usage of factoring, since the negative attitude can reflect an opinion of factoring being of low quality.

What must be considered when reading this thesis, is that due to the small amount of responses that the study received, the results can not be generalized on a larger population. Still, the difficulties for SMEs to access financing is one of their main issues right now. However, as we can conclude from our study, factoring may not be the best solution to help bridge the financial gap. Our study does not provide any evidence that the experienced financial difficulties are a determinant of the usage of factoring. This means that the enterprises do not want to use factoring regardless of their perceived financial difficulties. The problem regarding efficient financial solutions for SMEs therefore remains unresolved. Even though our study indicate that

factoring is not seen a good alternative for SMEs, these results are mainly based on a few number of industries. Furthermore, the enterprises in our study are mostly private corporations. This means that our results only reflect answers from a narrow group of enterprises, which means that we can not say that factoring is not a solution for everyone.

## **6.1 Future Research**

As indicated in the limitations and the conclusion, there are some aspects of factoring that this thesis did not cover. One angle that future studies could try to capture is to reach a wider span of industries to see whether there are some industries that use factoring to a greater extent or have other attitudes than the ones we could analyze. Another aspect for future studies is relating to the diversity amongst SMEs. Since SMEs make up a large amount of the enterprises both in Sweden and Europe, the differences between these enterprises are huge when it comes to for example their turnover and corporate structure. Since the differences between the enterprises are great, different SMEs will most likely benefit in different ways from using the same financial solution. For this reason, a future study could be to investigate a more specific and narrowed set of SMEs and their usage and attitudes towards factoring.

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# Appendix 1 - The Survey

## *Financing Solutions in Small and Medium sized Enterprises*

*Hi! We are four students from the School of Economics and Management at Lund University, who as of right now are writing our bachelor thesis about small and medium sized enterprise's possibilities in accessing capital for their enterprises. We would very much appreciate if You were able to take a few minutes of Your time to answer these short questions. Your answers will of course be completely anonymous. If You wish overview the result of the survey, please fill in Your email address in the last question of the survey. Thank You in advance!*

### *Characteristics About Your Enterprise*

1. How many employees do You have within Your enterprise? (*Closed multiple choice*)
  - Alternatives: 1-10; 11-50; 51-250; More than 250
  
2. Does Your enterprise have a turnover that exceeds 458,5 million SEK and/or a balance sheet total that exceeds 394,3 million SEK? (*Closed multiple choice*)
  - Alternatives: Yes; No
  
3. For how long has Your enterprise been in business? (*Closed multiple choice*)
  - Alternatives: Less than 1 year; 1-3 years; 3-5 years; More than 5 years; Do not know
  
4. Which company structure does Your enterprise have? (*Closed multiple choice*)
  - Alternatives: Public Corporation; Private Corporation; Partnership; Limited Partnership; Sole Proprietorship; Other
  
5. Does Your enterprise have access to financing through investment companies, foundations, funds or similar actors? (*Closed multiple choice*)
  - Alternatives: Yes; No; Do not know
  
6. **Only at Ideon survey:** Which business category at Ideon does Your enterprise belong to? (*Closed multiple choice*)
  - Alternatives: Business Development; Cleantech; Information and Communication Technologies (ITC); Life Science; Other High Technology; Service; Other
  
6. **Only at FRS survey:** Which industry does Your enterprise belong to? (*Closed multiple choice*)
  - Alternatives: Construction & Craftsmanship; Consumer Goods; Energy; Finance; Consulting Services; Healthcare; Materials & Commodities; Technology & Media; Other

### *Financial Solutions Within Your Enterprise*

7. To what degree has Your enterprise experienced difficulties in accessing capital from financial providers during the last year? (*Scale from 1 to 5*)
  - Alternatives: 1 = No difficulties at all; 5 = A lot of difficulties

7a. What has been the main reason for the difficulties in accessing external capital? (*Open*)

### ***Factoring as a Financial Solution***

*Factoring is a service offered by certain finance providers where the finance provider buys receivables from a company in exchange for cash. The company selling these receivables therefore pays a fee for exchanging the future cash flow (the receivable) against immediate liquidity. The possibility of selling a receivable is partly determined by the probability of payment from the indebted party (the party with a debt outstanding to the seller).*

8. What knowledge do You have regarding the concept of factoring? (*Scale from 1 to 5*)

- Alternatives: 1 = Never heard of it before; 5 = Know much about it

9. Have Your enterprise used factoring solutions during the last year? (*Closed multiple choice*)

- Alternatives: Yes; No; Do not know

10. To what degree could factoring be an alternative, now or within the next three years, when trying to access capital for Your enterprise? (*Scale from 1 to 5*)

- Alternatives: 1 = Not an alternative at all; 5 = A good alternative

11. Below are a couple of statements regarding factoring listed. Please fill out to which degree they match with Your own opinion. (*Scale from 1 to 5*)

- Alternatives: 1 = Do not agree; 5 = Fully agree; Do not know
  - Factoring is an efficient way for our enterprise to increase liquidity
  - Factoring is an efficient way for our enterprise to manage risk-exposure
  - Factoring transfers the monitoring of the accounts receivable; when the accounts receivable is sold, our enterprise no longer has to spend time and/or money on making sure the invoices is paid by their costumer
  - It is good for us that the factors (the ones buying the accounts receivables from our enterprise) base their credit rating on our invoices rather on our enterprise.
  - Factoring is too costly for our enterprise
  - Our enterprise does not have the right conditions to use factoring (e.g. lack of accounts receivable)
  - We do not know enough about factoring to use it as a financing solution
  - We prefer other financing solutions before factoring
  - Factoring is only for enterprises in liquidity crises

Any other comments You would like to add to the survey? (*open*)