

Borrower Discouragement in Spain: An Empirical Analysis Using a Survey Data Set

Authors : Ginés Hernández-Cánovas, M^a Camino Ramón-Llorens, Johanna Koëter-Kant

Abstract : This paper uses a survey data-set of 837 Spanish SMEs to analyze the association between borrower discouragement and prior firm's strategic decisions, while controlling for firm and owner characteristics. While existing literature has neglected factors limiting the demand for resources by an overreliance on arguments which attempt to explain the existence of discouraged borrowers solely in terms of lack of access to supply of credit. The objective of this paper is to show that factors limiting the demand for resources and, therefore, reducing the availability of funds, can be traced back to the firm manager's decision. Our hypothesis is that managers that undertake strategic decisions seeking growth or improvement in their business performance participate more in the banking market than those showing contentment with their current business situation. Our results shows that SMEs that undertake an active role in research and development activities and that achieve improvements in the operating performance of their business are less likely to be discouraged from applying for a loan. Who needs credit and who applies for credit is important for firms, prospective lenders and policymakers interested in the financial health of these firms. Credit constrained firms are less likely to invest in R&D and to introduce new products, possibly harming long-term economic growth. Knowing how important borrower discouragement is in Europe, is important for judging the priority which should be attached to government policies aimed at reducing its effects. For example, policy makers could encourage the transparency about credit eligibility and conditions in order to reduce discouragement.

Keywords : discouragement, financial constraints, SMEs financing

Conference Title : ICEBMM 2015 : International Conference on Economics, Business and Marketing Management

Conference Location : Berlin, Germany

Conference Dates : May 21-22, 2015