

PROMPTNESS OF PAYMENTS FOR GOODS AND SERVICES SUPPLIED AMONG POLISH ENTERPRISES COMPARED TO EUROPEAN UNION COUNTRIES

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Abstract:

Providing long – term payments deadlines to customers is now one of the most relevant and inherent element of contemporary business activity. It generates benefits to both companies (supplier that grant a credit) and trading partners (customers, users of trade credit). From the supplier point of view it is an excellent tool for increasing sales. On the other hand, in the interests of client, it is very flexible source of financing business operations.

Granting of trade credits contributes to higher trade receivables (on the side of suppliers) and thus creates an increased level of credit risk (late payment or non – payment). The results of researches shows that delays of payments are not marginal phenomena and therefore constitute the main threats to the operation of companies both in Poland and across Europe.

The article presents the current situation of the promptness of payments among Polish enterprises compared to European Union countries. The main aim of this paper is the verification of the hypothesis that Polish payment practices do not deviate significantly from the another European countries in 2016.

Keywords: trade receivables, trade credit, promptness of payments, late payments

1. INTRODUCTION

Cooperation between buyers and suppliers implies cash or deferred payments. Extended payments terms impact on trade receivables growth. It means providing commercial loans (so – called trade credit). Trade credit is an essential component of economic activity now. It becomes the most popular and attractive alternative to traditional bank lending. The significance of trade credit is reflected by the percentage share of short – term receivables in current assets (Table 1).

Table 1: The structure of current assets among Polish enterprises

	Current assets structure from 2013 to 2016			
	2013	2014	2015	The first half of 2016
Current assets				
Stocks	26,52%	26,06%	26,11%	27,03%
Short – term receivables	43,66%	42,88%	43,27%	44,43%
Short – term investments	26,91%	28,28%	27,85%	25,29%

Source: own elaboration on the basis of the data of GUS, 2014, 2015, 2016.

According to data published by GUS, short – term receivables (mainly trade receivables) are dominating element of current assets among Polish enterprises in the years under consideration. Their share exceeds 40% of current assets.

Selling products and services with deferred payment term may have an impact on the level of sales revenues, profits or the size of stocks. There are also trade credit management costs and increased business activity risk. Any amount receivables not repaid on the due date can lead to very serious consequences like payments backlogs, in turn leading to a company insolvent. It can be observed that payments backlogs are currently the cause of 50% of all companies bankruptcies in Poland (Związek Banków Polskich, 2013, p. 49).

2. POLISH COMPANIES' PAYMENT BEHAVIOUR

The present situation of the Polish companies' payment behaviour is described in published twice a year BIG InfoMonitor report. Each time, the report monitors and measures the degree to which payment problems affect enterprises. The research sample (total of 600 responses) includes companies from four sectors: services, trading, construction and production.

Table 2: The percentage of companies having problems with overdue receivables collection in 2016

Enterprises according to the number of the company's employees:	April of 2016	November of 2016
0 to 9 employees	43%	47%
10 to 49 employees	48%	61%
50 to 249 employees	62%	68%
Enterprises according to a sector:		
Services sector	42%	47%
Trading sector	45%	50%
Construction sector	38%	51%
Production sector	45%	48%

Source: own elaboration on the basis of BIG InfoMonitor, 2016, p.3.

According to the most recent report, the number of companies complaining of payment backlogs increased, particularly among medium – sized businesses (50 to 49 employees) and in construction sector (Table 2). This problem relates to micro - enterprises in the smallest degree. This may partly be so because smaller enterprises have smaller number of counterparties and are less likely to build cooperation with unreliable partners.

Respondents were asked also about reasons of late payments (or lack of payments) (Table 3). The root cause is the problem of cascading late payments – payment backlogs. Paying for goods or services within a deadline is easier in a group of clients which receive payments from their recipients. Another important causes includes another factors such as bad financial situation or intended action of a debtor.

Table 3: Reasons of late payments among Polish enterprises in 2016

The most important reasons of late payments	Enterprises according to the number of the company's employees:			Enterprises according to a sector:			
	0 to 9 employees	10 to 49 employees	50 to 249 employees	Services sector	Trading sector	Construction sector	Production sector
Payment backlogs	72%	69%	91%	81%	61%	77%	70%
Bad financial situation	70%	67%	67%	71%	59%	82%	72%
Intended action of a debtor	60%	48%	68%	50%	72%	48%	66%

Source: own elaboration on the basis of BIG InfoMonitor, 2016, p. 6.

First answer – payment backlogs is the most popular in the group of medium – sized businesses (91%) and in the services sector (81%). The second answer was noted mainly among medium – sized enterprises too (71%) and in the construction sector (82%). The third, also significant answer referred to medium – sized enterprises (like the top two answers) (68%) and to the trading sector (72%). Regardless of company size or field of its activity, this three reasons of late payments are the most meaningful and influential.

Late payment frequently causes difficulties for enterprises, generates obstacles in running a business activity. For many companies, payment backlogs led to liquidity problems (Table 4).

Table 4: Polish enterprises with liquidity problems arising from payment backlogs in 2016

Answer	Enterprises according to the number of the company's employees:			Enterprises according to a sector:			
	0 to 9 employees	10 to 49 employees	50 to 249 employees	Services sector	Trading sector	Construction sector	Production sector
The percentage of answers indicating liquidity problems	48%	38%	27%	47%	33%	70%	52%

Source: own elaboration on the basis of BIG InfoMonitor, 2016, p. 9.

The analysis indicates that the largest companies suffer less from liquidity problems (as a result of payment backlogs) to smaller companies. Given a sector, companies from a construction sector are the most susceptible to liquidity problems. It can be seen, then, that payment backlogs consequences affect (to a greater or lesser extent) all investigated companies, regardless of their size or sector.

According to another Polish report (Białowski, 2017) (published quarterly) shows deterioration in the area of receivables collection too (Table 5). The group of companies declaring a lack or reduction of recovering debts has fallen significantly since the previous survey (also in 2016). The percentage of companies treating late payments as growing problem increased. Expectations about possible problems with receivables are also pessimistic. Looking towards the future, 25,8% (in comparison to group of 17,8% included in the earlier publication) of the surveyed Polish companies expect an increase in problems with receivables in the coming months.

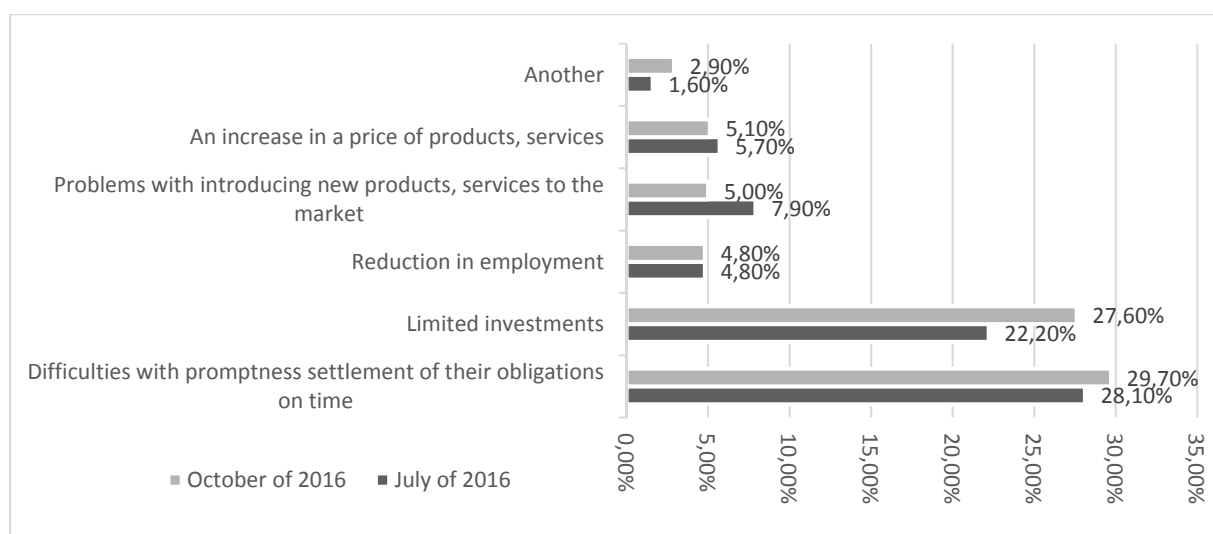
Table 5: The scale of problems with extinguishing liabilities by clients in 2016

Current situation	July of 2016	October of 2016	Predictions	July of 2016	October of 2016
This problem grows	13,7%	17,5%	This problem will grow	17,8%	25,8%
This problem persists	47,3%	47,1%	This problem will persist	61,6%	55,2%
The scale of this problem decreases	20,2%	20,9%	The scale of this problem will decrease	17,4%	15,5%
This problem is absent	18,8%	14,6%	This problem will be absent	3,2%	3,5%

Source: own elaboration on the basis of Białowolski, 2016, p. 4.

Consequently, there are numerous negative effects of late payments. As a result, many companies have difficulties with prompt settlement of their obligations on time. What is more, they have to restrict investments (Picture 1).

Picture 1: Effects of late payments in Polish companies in 2016



Source: own elaboration on the basis of Białowolski, 2016, p. 6.

As shown in the Picture 1, difficulties with settlement of obligations and limited investments have grown in significance since the last survey in the July of 2016. Less meaningful for enterprises were aspects connected with employment, introducing new products, services to the market or changes in a prices of offered products, services.

Non – payments of delayed payments may lead not only to deterioration in financial liquidity. There are a lot of negative consequences. Some of them are presented in the Picture 1. This problem affects not only Polish companies, but also European companies.

3. PROMPTNESS OF PAYMENTS FOR GOODS AND SERVICES SUPPLIED AMONG EUROPEAN UNION COUNTRIES

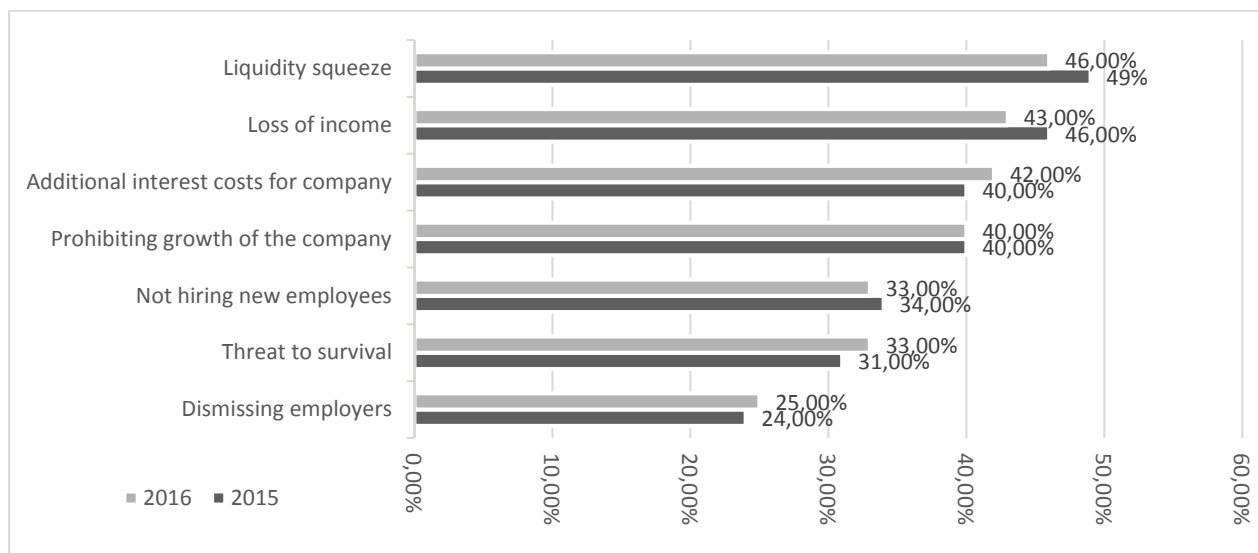
Payment practices and actual financial health of European enterprises can be known thanks to “European payment report”. It is based on a survey that was carried out between February (2016) and April (2016). The respondents consisted of 9 440 companies from 29 countries¹. An initiator² of the survey participates in meetings, seminars in Brussels in order to provide information about current payments situation and also about activities intended to improve economy and payments secure in Europe.

¹ All the countries of the European Union except Cyprus, Luxembourg, Malta. Participants of the survey are also countries from outside the European Union: Norway, Switzerland, Serbia, Bosnia. The author of this article takes into account only the Member States.

² Intrum Justitia.

Similarly to the Polish report, the group of European respondents have to point out observed consequences of late payments. It turns out that the most frequent answers to this question are liquidity squeeze, loss of income, additional interest costs for company and prohibiting growth of the company (Picture 2).

Picture 2: Consequences of late payments



Source: European Payment Report, 2016, p. 7.

Almost half of respondents see liquidity squeeze (46% in 2016) as the most important element of late payments effects. A little less important are: loss of income (43%), additional interest costs for company (42%) and prohibiting growth of the company (40%). Like in the Polish survey, dismissing employers has a much weaker impact. It can be noted that consequences of late payments hierarchy is similar from both Polish and European Union countries point of view.

Also attention – worthy is comparison of average contractual and real payment time in days (Table 6).

Table 6: Average payment terms and yearly revenues written off in European Union member countries in 2016

Country	Average Contractual Payment Terms in days. B2B	Average time in days that customers actually take to pay. B2B	The number of days exceeding the payment deadline	Yearly revenues written off (%)
1. Austria	23	27	4	1,7%
2. Belgium	31	41	10	2,7%
3. Bulgaria	32	36	4	4,2%
4. Croatia	32	51	19	2,4%
5. Czech Republic	21	24	3	1,9%
6. Denmark	25	29	4	0,4%
7. Estonia	16	18	2	1,4%
8. Finland	18	23	5	0,9%
9. France	41	48	7	1,7%
10. Germany	14	15	1	3,7%
11. Greece	52	63	11	5,8%
12. Hungary	20	24	4	1,4%
13. Ireland	40	36	-4	1,8%
14. Italy	60	80	20	3,8%
15. Latvia	22	22	0	0,9%
16. Lithuania	27	27	0	2,2%
17. Netherlands	27	32	5	2,6%
18. Poland	24	30	6	2,0%
19. Portugal	52	68	16	2,3%

20. Romania	Missing data 2016, 25 in 2015	Missing data 2016, 25 in 2015	0	2,7%
21. Serbia	Missing data 2016, 29 in 2015	Missing data 2016, 30 in 2015	Missing data 2016, 1 in 2015	0,8% ³
22. Slovakia	22	24	2	1,5%
23. Slovenia	29	42	13	2,9%
24. Spain	57	69	12	3,0%
25. Sweden	28	31	3	0,8%
26. UK	29	29	0	2,6%
Average for European Union	≈ 31 days	≈ 37 days	≈ 6 days	≈ 2,39%
North Europe (Sweden, Denmark, Latvia, Lithuania, Estonia, Finland)	≈ 23 days	≈ 25 days	≈ 2 days	≈ 1,1%
South Europe (Spain, Portugal, Italy, Greece)	≈ 55 days	≈ 70 days	≈ 15 days	≈ 3,73%
Central Europe (the UK, the Netherlands, Ireland, Hungary, Germany, France, Belgium, Austria)	≈ 28 days	≈ 32 days	≈ 4 days	≈ 2,28%
East Europe (Slovenia, Slovakia, Romania, Poland, Czech Republic, Croatia, Bulgaria)	≈ 27 days	≈ 35 days	≈ 8 days	≈ 2,5%

Source: own elaboration on the basis of European Payment Report, 2016.

On the basis of the presented data (recorded in 2016), the conclusion can be drawn that average contractual payment terms in days differ from real payment terms in days in European Union member countries. The average time (for all surveyed countries) of settlements of accounts with contractors in 2016 was 31 days. However, some groups of payments were made outside the time limits, with an average delay of 6 days.

The number of days exceeding the payment deadline for Polish companies is currently at a medium (for European Union) level. This is slightly better than delays in developed countries like Belgium (10 days), France (7 days). The Member States with the longest delays for B2B customers are Croatia (19 days) and countries from South Europe like Spain (12 days), Portugal (16 dni), Italy (20 days) and Greece (11 days). Small scale late payments exists in the countries with short contractual payment periods and preferring cash selling. These countries includes for example Germany, Estonia, Hungary, Finland, Czech Republic, Slovakia, Latvia. It is worth mentioning that in conditions of gloomy economic environment, this countries (with short average contractual payment terms) can have difficulties during taking out commercial loans and hampered activity, development of companies. The largest group for which average contractual payment terms in days is somewhere between 20 and 30 days, and were the number of days exceeding the payment deadline is between 4 and 12 days. This group includes also Poland. Thus, the longer payment term, the more likely customer will fail to pay or will not pay on time.

Assesing payment situation among the Eurpean Union countries, it is worth checking what percentage of all trade receivables constitute lost trade receivables. This problem concerns those countries in which the number of days exceeding the payment deadline was the biggest: Greece, Bulgaria and Italy. Yearly revenues written off are within a range of 1,7% - 3,0% in most of the relevant countries, including Poland. The analysis of payments in European Union can be made by taking into account four areas of Europe: north, south, central and east. Poland belongs to the group of countries from Eastern Europe with payment terms that are the most similar to average values for the community.

³ In 2016.

4. SUMMARIZING

Problem of overdue payments affects not only Polish companies but also all other European Union members. It has transnational character and often leads to loss of financial liquidity, delays in expansion of company or even bankruptcy.

The presented analysis shows that Polish payment practices do not deviate significantly from the other European countries in 2016. Average contractual payment terms in days, average time in days that customers actually take to pay, the number of days exceeding the payment deadline, yearly revenues written off do not deviate significantly from the actual figures for European Union countries. However, this does not mean that late payments are a small problem for Polish companies.

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