

A QUALITATIVE APPROACH TO TRADE CREDIT IN BUSINESS ORGANISATIONS

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Abstract: The aim of the paper is to present, in the cognitive aspect, the opinions, judgements and notions of entrepreneurs regarding financing of the current activity of enterprises with trade credit. The nature of the research problem determines the adoption of qualitative research as a research basis, in which direct interview with entrepreneurs has been used. These entrepreneurs, in transaction processes, represent both credit recipients as well as credit donors. Interviews were conducted in 2015, on a sample of 147 manufacturing companies of different nature and different business domain. The paper presents both positive, as well as negative aspects related to the use of trade credit. The possibility to purchase without having financial means, improving financial liquidity and production productivity; increase in revenue and competitive position and general use, open access and cheapness are particularly important in the first approach. Payment gridlock and high risk of activity, as well as increase in the cost in business activity were indicated in negative terms.

Value - the authors try, through the prism of empirical research, to show and estimate positive and negative aspects of trade credit. This knowledge has a practical value as it could be used by other firms that implement or develop their trade credit policy.

Keywords: trade credit, financial liquidity, current activity financing, positive and negative aspects of trade credit

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Introduction

Contemporary operating activities can be financed with funds from various sources, including overdraft, short-term bank loan and trade credit that, in the opinion of many entrepreneurs, is the cheapest, easily available and relatively high-elastic source of capital. It is believed that the basis of its development are the positive relations between enterprises, with cooperation and mutual care for their own interests. In business practice, its popularity and use show a steady, increasing trend. One of its basic advantages is the impact on the increase in turnover between enterprises, which results in economic recovery and stabilization of operations. It is an important and constantly growing source of financing for the operational activity of enterprises in almost all sectors. The importance of trade credit is manifested in the fact that no enterprise can fully use its potential without access to external financial resources. In the case of entities that have difficult access to bank financing, trade credit becomes an alternative that allows both to expand the scope of activity and increase competitiveness and bargaining power in relation to other companies. It should be noted that trade credit is the basic source of raising capital for many entities, especially in the SME enterprises sector. Despite its public availability, universality and relatively large scope of use, little attention is paid to it in literature. There is a lack of qualitative research that would show the opinions, comments or observations of entrepreneurs regarding this form of financing, in particular. In many cases, trade credit is internal; hidden in the company's commercial and distribution activities, and is part of the strategy and competitive position, which means that business entities are reluctant to provide information about it.

The widespread use, public access, as well as the ever-growing importance of trade credit have contributed to formulating the purpose of the study, therefore, the cognitive aspect of the opinions, positions and views of entrepreneurs regarding this form of business financing was adopted. Interviews were conducted in 2015, on a sample of 147 entities that exist both in the form of a recipient of credit and a creditor.

The essence and significance of trade credit in business operations

In modern business relations, trade credit has become a standard, a necessity and a rule of cooperation between enterprises. In scientific discourse, it is known as credit from a supplier (because it is granted by a supplier of products or services), commercial credit (because it is related to the exchange process) and commodity credit (because it is granted for goods). The term trade credit is also used interchangeably with the concept of trade receivables that arise at the time of sale of final goods, commodities and materials for which the supplier has not yet received payment (Harris, Roark, 2017, p. 1375).

It is pointed out that without offering a loan or financing from a supplier, running a business would be very difficult and even impossible in some sectors. It is emphasized that corporate policy related to trade credit is one of the most important factors of economic development. A properly developed, implemented and conducted credit strategy can help stimulate sales of a company, and thus affect the increase in turnover (Ferrando, Mulier, 2013; García-Teruel, Martínez-Solano, 2010a, Afrifa, Padachi, 2016). By using an appropriate incentive scheme, enterprises can encourage customers to increase the value of their purchases in relation to their needs (Afrifa et al., 2014). In addition, trade credit supports the operation of buyers who have difficult access to external financing (Garcia-Appendini, Montorial-Garriga, 2013), and increases the scope of shareholder participation (Hill et al., 2013). Trade credit also serves as a guarantee of quality for customers, and thus can help maintain long-term customer relationships (Ng et al., 1999). The period of time between delivery and payment or prepayment and delivery can be used to check the contractor's reputation, credibility and reliability.

According to Ferries (1981, p. 243), trade credit increases the company's flexibility in settling its liabilities, and thus contributes to the reduction of necessary collateral, which is obligatorily required by banks and other commercial financial institutions. In practice, there is a belief that the creditor can assess the recipient's credit risk faster, better and more correctly than professional financial institutions (Burkart, Ellingsen, 2004, p. 569).

Their advantage is manifested in direct, close and mutual contacts with the credit recipient, which means that the developed opinion is credible, complete and reliable. In some situations, it is even considered that trade credit is a special type of investment in relations and business contacts with contractors (Garcia-Teruel, Martinez-Solano, 2010b, p. 216; Rytko, 2009, p. 27). It is a strategic tool for supporting, maintaining and developing relations with the market. It enables the appropriate transmission of information regarding the specificity of the company's products, the type of service provided or goods produced, financial condition, as well as the company's involvement in relations and development perspectives of a given industry (Summera, Wilson, 2003, p. 439). Enterprises that seek to gain a competitive advantage invest in relationships with credit recipients, offering favourable conditions and relatively long repayment terms, which vary depending on the value of the purchase. Low transaction risk, long payback period, rebates and favourable supplier policy contribute to increased turnover and achievement of specific goals (Summera, Wilson, 2003, p. 439).

In addition, investing in trade credit can lead to reduced inventory maintenance costs (Afrifa, 2016). García-Teruel and Martínez-Solano (2010b) state that a loose policy regarding the company's trade receivables can reduce the cost of storing the excess inventory. However, investments in trade credit will require additional capital according to Hill and others (2010), and may therefore harm the company's performance.

In business practice, trade credit is an alternative way of financing, especially the operating activities. It can be understood as a supplier's postponement of the need to pay the recipient for the goods or rendered services (Cuñat, 2007, p. 491; Tsao, 2017, p. 276). It can, therefore, be pointed out that it is a form of short-term non-bank financing of an enterprise (Zawadzka, 2009, p. 7; Fatoki, Smith, 2010, p. 1791) and, at the same time, it is defined as a type of loan binding both the time and value of the goods to be exchanged (Ferries, 1981, p. 243). Therefore, it is associated with the process of exchange of goods and services between two parties, for which one party expresses a demand and readiness to pay within a strictly defined period, and the other party accepts these conditions and is ready to bear the risk of the partner's possible insolvency (Adams et al., 1992, p. 95). For the supplier, it becomes a payment, for the recipient - an obligation. Trade credit

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is therefore a deferred payment option for goods and/or services delivered. From the supplier's point of view, it is a loan granted to the recipient, while from the recipient's point of view - a short-term source of financing (Ferenc-Dąbrowska, Porada-Rochoń, 2012).

Therefore, trade credit is derived from financing by one of the parties of the contract, widely used in business practice, and numerous transactions without fees and additional costs (Baker, 1970, p. 11). It consists of two basic parameters, i.e. the period for which the loan is granted and its value, i.e. the limit up to which the creditors can indebted themselves. The term and value of the trade credit are different and depend on the place where the given entities operate; the type of industry or domain of activity; manufactured products, their complexity, durability and purpose; customs prevailing in given market segments; political, economic and legal situation; economic stability as well as the availability and procedural conditions of other types of funding. Its essence is the sale of goods and services without having to pay for the goods or services provided at the time of the performance of the contract. Payment is made after a predetermined period of time. In the interval between the delivery of goods and the moment of payment, the buyer receives credit. The amount of credit corresponds to the amount of the transaction (Bhole, Mahakud, 2004, p. 1277). In practice, it is believed that companies wanting to optimize their results must simultaneously manage both trade receivables and liabilities (Ferrando, Mulier, 2013), because these elements are an integral part of the trade credit, which interact with each other (Caglayan et al., 2012). This means that companies are at the same time creditors and commercial debtors (Burkart, Ellingsen, 2004) and therefore simultaneously manage operational assets (receivables) and liabilities (Hill et al., 2010). It is emphasized that companies adjust the maturity dates of their trade receivables (assets) and trade liabilities to risk management purposes.

As noted, a trade credit appears when the supplier allows the buyer to delay payment for already delivered goods. For most business entities, this is one of the main short-term sources of business financing; in many cases, it replaces the working capital loan (Atanasova, 2008, p. 49). Additionally, it is pointed out that the indebtedness of enterprises with trade credit is particularly important for companies in the SME sector that have

difficult access to financial markets (Burkart, Ellingsen, 2004, pp. 569-590). It guarantees access to financial resources for those units that are not able to obtain it using traditional channels. Trade credit is most often granted by those enterprises, which, by their nature, believe that they have easier access to it, which means that it is a kind of institutional financing substitute.

The option of deferred payments enables buyers to manage their short-term cash flows more effectively, and can be seen as a price discrimination tool to stimulate sales. Price discrimination is an instrument that allows you to diversify the approach to contractors by shortening or extending the payment period. Manufacturer - supplier can manipulate the price of the product by changing the credit terms offered to buyers [Petersen, Rajan 1997, p. 662]. In practice, enterprises divide their contractors into groups to which they offer specific, usually personalized conditions, inaccessible to other recipients. First of all, they relate to the loan period and the amount of discount for earlier payment. This perspective proves that providers can use credit policy as a form of price discrimination, promoting one group of buyers and repressing others.

To sum up, it should be emphasized that the basic features of trade credit include universality, popularity, comprehensiveness, availability, short-term duration, heterogeneity, forced nature, as well as alternative to other forms of financing business operations.

Characteristics of the test sample

The research on financing enterprises with trade credit was of a two-phase nature. In the first phase, of quantitative nature, which focused on issues such as the manner of proceeding, the financing period, forms of collateral for receivables, or collection methods. 192 entities took part. However, 147 companies, representing 76.6% of the sample, agreed to participate in the second phase related to the qualitative research. The purpose of the study was to gather the opinions and comments of entrepreneurs who regularly encounter this phenomenon. They were conducted in the form of a direct conversation, during which respondents freely formulated their subjective perceptions and views, often including

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incidental events that influenced both positive and negative features. Interlocutors were recruited among owners, managers, accountants and, in some cases, specialists who dealt with the company's financial policy. Therefore, it can be noted that the data obtained are characterized by a high degree of reliability.

In addition, the enterprises participating in the study were characterized in terms of a number of factors, including the employment level, period of operation, domain of activity, legal form, headquarters, served markets and base strategy.

It should be emphasized that the quality of the answers obtained greatly varied, some interlocutors expressed one-sentence opinions, others provided exhaustive answers, which were also illustrated by practical examples. Generally, positive aspects dominated, noticed by 114 companies (77.6% of responses), 14 entrepreneurs (9.5% of responses) expressed the opposite opinion and 19 entities indicated both positive and negative matters (12.9% of responses).

Table 1
Characteristics of the test sample according to selected criteria

No.	Characteristic	No. of indications N=147	Share (in %)
Enterprises			
1.	Small	13	8.8
2.	Medium	39	26.5
3.	Big	41	27.9
4.	Micro	54	36.7
Respondent			
1.	Owner/chairman	54	36.7
2.	Specialist	43	29.2
3.	Accountant	29	19.7
4.	Director / manager	15	10.2
5.	Other	6	4.1
Business profile ¹			
1.	Production	76	51.7
2.	Industry supply	56	38.1
3.	Services around production	40	27.2
4.	Other industrial service	26	17.7
5.	Building	13	8.8
6.	Transport	9	6.1

Legal form			
1.	Enterprises of natural person	61	41.5
2.	Limited liability company	49	33.3
3.	General partnership	11	7.4
4.	Public limited company	10	6.8
5.	Partnership	8	6.1
6.	Other	8	6.1
Year of foundation			
1.	To 1990	23	15.6
2.	1991-2000	54	36.7
3.	2001-2010	55	37.4
4.	After 2010	15	10.2
Market ¹			
1.	Local market	75	51.0
2.	Regional market	53	36.0
3.	Domestic market	70	47.6
4.	International market	41	27.9
5.	Global market	4	2.7
Location by size of locality			
1.	Locality to 50 thousand inhabitants	76	51.7
2.	Locality from 50 to 100 thousand inhabitants	18	12.2
3.	Locality from 101 to 200 thousand inhabitants	22	15.0
4.	Locality over 200 thousand of inhabitants	31	21.1
Basic strategy ¹			
1.	Quality strategy	80	54.4
2.	Price strategy (cost leadership)	63	42.8
3.	Differentiated strategy - depending on the supported regions, businesses	45	30.6
4.	Niche strategy	12	8.2
5.	Mixed strategy (average quality for average price)	9	6.1
6.	Lack of strategy	3	2.0
7.	Strategy of imitators	7	4.8

¹ The company could indicate more than one option.
Source: own study.

Trade credit assessment in the opinion of respondents

Moving on to a comprehensive analysis of the data obtained, it should be emphasized that the majority of entrepreneurs assess the trade credit based on two perspectives: from the perspective of the creditor and the recipient. It was emphasized that for the recipients the trade credit is an opportunity for development; for creditors - it is the opportunity to attract new buyers and new markets, however, stipulating that it may pose a certain threat. In addition, during the interviews a significant proportion of respondents emphasized trust issues, which are generally related to the trade credit institution. According to the respondents, it is the result of the period of cooperation and experiences resulting from this cooperation. It was also emphasized that such relationships are not based on recurring transactions; but in the evolutionary process, during which a number of principles and rules, which are constantly followed, have been developed.

In general, the particularly positive aspects of the discussed form of financing from the recipient's perspective, indicated by several dozen respondents, include the possibility of purchasing the necessary supplies without the need for financial resources, which greatly facilitates and supports running a business. It was emphasized that in business practice it is an irreplaceable source of financing, at the same time pointing out the importance of payment deadlines in the process of establishing and developing cooperative relations. Its essence is associated primarily with the universality and virtually unlimited availability, because it is used by micro, small, medium and large enterprises. It is significant for entities that do not have access or have a very limited access to other sources of financing, including a bank loan, in particular, which requires many verification procedures. No additional collateral is required in trade credit procedures, so it can be the primary source of financing the ongoing operations.

The second positive aspect that the respondents drew attention to was the cost-free nature of the source of funding discussed. According to the surveyed entities, it is an exceptionally attractive alternative to bank loans, because an entrepreneur using the trade credit institution does not bear any costs, for example, for the processing of an application, granting, verification, etc. The low cost of the trade credit is, therefore, its main

advantage. It should be emphasized that in trade credit a discount can be used. However, it is used relatively rarely in Poland.

Trade credit is also an extremely important tool of the financial management of an enterprise, especially in the aspect of planning inflows and expenses. However, reliability of contractors, who must comply with the terms of cooperation, is required. Failure to comply with payment deadlines should result in removing the buyer from the list of cooperating companies or changing the terms of cooperation, from credit to cash. However, only large companies with an extensive buyer structure and high bargaining power can afford this type of procedure. Small entities must comply with the rules dictated by their clients.

Trade credit is also positively reflected in enterprises whose main domain of activity is connected with the production or rendering of production services. It is emphasized that the deferred payment deadline is of particular importance in a situation of rapid rotation of production inventories. Lack of own financial resources, and thus the possibility of purchasing materials intended for production, could contribute to slowing down or even stopping production processes. Thus, trade credit enables the execution of external orders, even in a situation of increased demand for the manufactured assortment. Manufacturers primarily pointed out its impact on the consistent production flow, elimination of downtime and shortening production cycles that, in their opinion, improves work efficiency and productivity of assets, and thus ensures growth and development.

Another positive aspect of trade credit, emphasized by respondents, concerned the possibility of increasing both revenues and profits. Attention was drawn to the fact that the liberal policy of the creditor may significantly increase the value of turnover with certain counterparties, especially those who represent development sectors and, at the same time, do not have sufficient own funds. Many respondents, especially those representing the small and medium-sized enterprise sector, emphasized that, in their case, this form of financing is an objective necessity, strongly influencing development. Lack of the deferred payment method would effectively prevent the implementation of many production or service tasks. In the context of the increase in turnover and profits, the possibility of developing positive, long-term relationships in the supplier-recipient system was also

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pointed out, and thus building a framework of loyal, responsible and reliable buyers. In some statements, it was emphasized that trade credit has a significant impact on the durability and stability of relationships.

Important positive aspects related to the trade credit also include the possibility of entering new markets, building new distribution channels and acquiring new customers. In new relationships, it is an extremely important tool for competitive struggle, especially in the process of establishing cooperation. It is pointed out that offering long (longer than the competition) payment periods is a distinctive and fundamental advantage enabling the successful cooperation. According to some respondents, a long payment period is more favorable than a discount or lower price. Therefore, it can be noted that trade credit improves the competitiveness of an enterprise that can offer services or products with long payment periods, in which interest is not included. This approach allows increasing the number of active buyers, as well as expanding assortment.

However, it was noted that attempts to diversify the market are of a high risk. Lack of proper recognition of new, previously unsupported areas, especially the rights that govern them, may result in overestimating your own capabilities. Acquiring new markets is associated with the need to offer better conditions for cooperation, as well as increased trust and commitment, which may be abused by some unreliable contractors. Respondents emphasized that market diversification must involve the verification of buyers. This verification is generally carried out by the creditor and consists in analyzing the documents of the future partner. However, some respondents pointed out the need to have appropriate references and recommendations when applying for a credit from a supplier. Respondents also pointed out the industry diversity of the recipients of credit; in their opinion, some business segments are very bad payers that are unlikely to be trusted. They are mainly large, heavy industry production enterprises, e.g. coalmines, shipyards, steelworks, as well as the construction industry.

Some respondents indicated that the risks arising from late repayment of trade credit could be effectively eliminated by cooperating only with regular contractors, who have proven themselves in the course of existing relations. In particular, it should only apply to key customers with whom a formal, long-term contract has been signed, and to whom the value

of mutual turnover is significant. In addition, it is important to carefully examine new, unknown companies, which often use pressure on new contractors in the process of obtaining trade credit. Respondents emphasized that by implementing an appropriate and sensible funding policy, one could develop a strategy that would allow effective trade credit management. From the creditor's point of view, the payment deadline is a particularly sensitive aspect of the trade credit, its poor estimation by the seller may lead to serious perturbations. In addition, it is emphasized that timely payment of liabilities should be a standard rather than an episodic approach.

According to other opinions, it was sporadically pointed out that a trade credit was associated with a system of discounts for early repayment, which means that its cost could be recalculated. There were also some opinions with a less ethical approach. Several respondents emphasized that, even though the payment was significantly delayed, they were never asked to pay interest. Therefore, it can be noted that they achieved their goals at the expense of the suppliers, which proves antagonistic relations and conformist approach to business.

The respondents also indicated that the amount of credit should be differentiated from the point of view of the creditor and recipient, it is better when the payment deadline for deliveries is longer than the one set for the recipients. This allows, on the one hand, to consolidate a positive image towards suppliers, and on the other hand, to use free funds for other purposes. It was also pointed out that if contractors complied with the terms of the contract, the company's financial liquidity would improve.

Many entrepreneurs indicated that a trade credit should be regulated by an appropriate formal contract that would, to some extent, offset the emerging threats. Particularly important would be the provision, on the basis of which, the creditor could recover their undisputed funds within a few days, and not as it is in the current situation, in which court proceedings last from several to several dozen months. It is also suggested that, following the example of Western countries, a company that has not paid an invoice should not have the right to include it in the costs.

Trade credit is not always considered by entrepreneurs as a source of benefits that affects the development and growth of business. A dozen or

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so respondents emphasized the negative aspects resulting from this form of financing contractors. The unfavorable impact of trade credit on the functioning of enterprises is particularly visible in the smallest entities that have a relatively weak market position.

The basic negative aspects were generally associated with significant delays or lack of payment for goods or services rendered, which, according to the respondents, means that the trade credit institution is being abused. In many cases, this led to disturbances in financial liquidity and the formation of payment gridlocks, which significantly hindered day-to-day functioning. It was pointed out that the loss of the ability to settle one's own liabilities was a particularly severe aspect, which could quickly lead to the collapse of the enterprise. A particular danger is the build-up of delays that occur when several recipients fail to settle their obligations on time. In such a situation, suppliers are forced to look for another source of financing, usually much more expensive and difficult to access. In this context, it was also emphasized that the necessity of conducting costly and time-consuming debt collection procedures was particularly difficult.

In addition, in respondents' opinion, trade credit in many situations takes on a virtual, unreal and abstract character. It was emphasized that some companies, characterized by considerable bargaining power, do not permanently comply with the established terms of cooperation, especially in terms of timely payment of obligations. However, notorious failure to meet financial obligations does not result in consequences that are more serious. The position of recipients and their scope of activity mean that putting pressure on a company or a person does not bring the expected results. Credit providers, mainly from the SME sector, therefore, have to include "planned delays" in their company's financial policy, which significantly disrupts day-to-day operations, including the ability to purchase materials and even settlement of certain liabilities to the state treasury. There is another shortcoming related to the problem of debt collection. It was pointed out that in many cases, the credit provider has to "ask for their own funds". In addition, the pressure and demands of large entities regarding long payment periods generally limit development opportunities, result in lower profits and diversify operations.

Another significant disadvantage of this form of financing, especially from the perspective of the smallest entities, is its relatively small value and limited range. Trade credit applies to short-term periods in the range of 14 to 28 days, which means that it is not very effective as an external source of financing. In addition, from the perspective of enterprises with low bargaining power, its value amounts to several or several thousand zlotys. Difficulties in accessing trade credit for small enterprises as well as disproportions between the credit granted (up to 100% of turnover) and the obtained credit (20-50% of turnover) were also pointed out. According to the respondents, this means significant difficulties in managing their own capital.

Another drawback that has been noted is the increase in operating costs, especially in case of bankruptcy and composition proceedings. It was emphasized that claims on suppliers were satisfied subsequently, which means that only a small amount of invested capital can be recovered.

In addition, according to the respondents, too high liabilities towards suppliers, can adversely affect the assessment of the creditworthiness of an enterprise that is applying for a bank loan and investment financing. Another important drawback is the lack of legal and, above all, quick tools for enforcing trade receivables. It was also pointed out that delays in payment execution destroy relationships between companies and destructively affect future behaviour.

Conclusion

Although according to the Payment Practices Barometer (2014) Poland, in terms of payment morality, is almost at the very end of the ranking, compared to European countries, in the opinion of entrepreneurs, trade credit is seen rather positively. Threats resulting from untimely payment of receivables are treated as a standard risk that is part of current business operations. According to the respondents, this form of financing has many advantages, among which the most important were: the ability to purchase without need for financial resources, impact on production liquidity and productivity, increase in revenues and competitive position as well as universality, accessibility and cheapness. In the negative comments,

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however, two main problems were pointed out; the first concerned increasing payment gridlocks and insolvency risk, the second focused on the increase in operating costs in the absence of planned inflows from contractors. According to the respondents, these problems should be resolved by means of legal provisions that would, to some extent, offset the emerging threat.

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