



Factors Influencing the Granting of Credit to Start-up Businesses



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Bachelor Thesis
Industrial & Financial Management
University of Gothenburg
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Abstract

New businesses play a key role in developing the Swedish economy and financing these enterprises is essential for a continuous growth. However, funding a start-up company may pose a significant problem as they hold only limited historical economic data and often conduct business on strict capital budgets. It is therefore of interest to break down the central factors in the assessment and analyse the process as a whole. The purpose of this report is to describe, elaborate and analyse the credit assessment process of Swedbank and SEB and the impending challenges that may surface when dealing with different industries. The report is limited to start-up business entities in the Gothenburg Area. The report has been executed using a qualitative method and an abductive approach. The empirical data has been collected through semi-structured interviews with four respondents from the banks. The report showed that factors essential to the assessment are; the company management, the relationship between the creditor and the credit applicant, corporate and personal financial data, the business plan, past experience and securities available. When dealing with different industries, advisors are expected to have general knowledge in different industries, but there are no industry-specific advisors. If there is uncertainty involved, the advisor has the power to increase the security or to waive the deal. The report also showed that the assessment process is permeated by rigorous laws as well as internal framework and protocol, however, there is still a risk of subjective influences on the final decision.



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1. Introduction

This section aims to present the background to the credit assessment process, followed by a problem discussion and the report's purpose and research questions.

1.1 Problem Background

Despite the historical dominance of small businesses and their noteworthy impact on gross domestic product, employment and growth, interest in the small enterprises - regardless if politically, scientifically or financially - has been limited through the years. It was only in the 1970's began small and medium-sized business role in the national economy to be reassessed. At first, studies accentuated that smaller enterprises were the salient reason to the increase in employment and subsequently, these companies have played a key role in developing the Swedish economy in recent years (Tillväxtverket, 2011). A condition for business renewal and development is to stimulate new and small companies with growth potential. These companies infrequently have major impact on employment and productivity in the first year of operating, nevertheless, they may be key in reducing redundancy and increasing economic growth in the long run, by replacing less productive businesses, meeting new demands and cumulating market competition (Andersson, 2006).

New business entities are nowadays of considerable essence in terms of renewal of the economic structure and influence on technological advancement and market development in short term and in long term perception. Tillväxtverket (2011) concludes that there are three fundamental elements to why small enterprises are indispensable to the present economy.

- They account for a substantial part of the employment – in most developed countries *circa* 2/3
- They have a noteworthy impact on GDP
- They contribute with renewal and innovations.

However, in order to develop the business plan to a comprehensive business, the entrepreneur requires financing, which often indicates the need of external capital. (Lundén & Svensson, 2006) Financial availability may however pose a significant problem for the aspiring entrepreneur. Rendering a survey conducted by Källström, Weström and Ahlin (2006), newly started business

owners assess their loans and credit opportunities as more cumbersome compared to the average for all businesses. An entrepreneur must therefore be keen and able not only to start the business, but also to negotiate with various investors on their terms. To sell one's idea, one may even need to put in more willingness and determination than the actual start-up of the enterprise requires (Broomé, Elmer & Nylén, 1998). Nyberg and Österberg (2003) claim that bank loans are the form of external funding which has long been seen as the most essential for business investment in terms of volume, and the four major banks account for the major part of lending in Sweden.

1.2 Problem Discussion

The Swedish financial market is currently dominated by four major commercial banks. However, the banks are dissimilar in terms of structural organisation and composure and retain - to some extent - different market focus. For example, Swedbank and Handelsbanken approach the market with a decentralised structure, involving a widely branched office network spread across the country, while Nordea and particularly SEB have chosen a more centralised structure. Furthermore, Swedbank have a clear focus towards smaller enterprises, while SEB has a major share of the larger companies and institutions (Tillväxtverket, 2011). Subsequently, this affects the approach towards the credit assessment of start-up companies that an advisor in the banks may have, both in terms of structural composite and company market focus.

According to Broomé, Elmér and Nylén (1998), a company lifecycle is characterised by five stages; introduction, growth, maturity, saturation and decline. A company typically has different capital needs in the different stages, and it is commonly regarded as the most difficult for a company to be granted a loan in the introduction and decline stages, due to the fact that the company development is the most uncertain in these stages. Moreover, enterprises in the introduction phase hold only limited historical economic data, often conduct business on strict capital budgets and have only a small amount of suppliers and customers. As explained by the authors, these firms therefore have dissimilar needs of capital resilience and capital structure to an already established company, which makes the credit assessment more problematic for the bank when dealing with companies in these phases.

Green (1998), states that the historical financial information in terms of relevant financial statements is essential for the creditor in the credit risk evaluation. However, for evident reasons, such information is limited in a firm presently in its initiation phase, and hence the creditor will not be able to make a well-informed decision (based on numerical data). Subsequently, financing a business entity in the start-up phase is a greater risk to the creditor than financing a well-established company. As a consequence, there are also more profound requirement levels on the financial analysis for a newly started business entity than for the established businesses. Tegin (1997) elaborates that creditors therefore need to gauge the risk of future credit losses by alternative measures to historical data.

In most start-up companies, there is a profound connection between the company and the manager itself and in many cases the manager is unaccompanied in the business. Hence, the evaluation of management is of high importance to the credit assessment, as corroborated by Grunert & Norden, (2010); Bruns & Fletcher (2008); Broomé et. Al. (1998). However, such a qualitative assessment may in itself prove cumbersome, due to the lack of effective methods of measuring management efficiency. (Green, 1998) Moreover, Bruns & Fletcher (2008) and Caouette (2008) all claim the advisor's personal analysis of the company and management is highly influential on the final verdict. Therefore, regardless of standardized framework and protocol, there will always be an element of subjectivity in the decision, which may bias the final verdict. Thus, it is of interest to analyse how the individual advisor reasons and executes the credit assessment.

Maintaining a diversified and wholesome lending is of weighty importance to the bank. Therefore, lending generously to companies within the same industry entails a high risk. (Greuning & Brajovic Bratanovic, 2003) This can be explained as fluctuations and downturns in the specific industry would in these circumstances have a larger impact on the bank than if the credits were diversified and spread amongst different industries. According to Bruns (2001), banks therefore tend to avoid dealing with companies that wish to establish themselves within particularly risky industries, and the companies may consequently find difficulties in being granted credit. Moreover, in order to reduce the information asymmetry between the company and the advisor, the latter shall gather as much information as possible regarding the specific industry and the market in which the company operates in. (Landström, 2003) However, this type of information is, according to the author, often costly and time consuming for the bank to attain. Hence, one can conclude that the amount of time

the advisor spends gathering data on the industry may vary with the cost of attaining the data and the interest the bank has in the particular credit.

Literature regarding the credit assessment process was diverting in determining the key factors in the process, however, there were a number of reoccurring factors that were mentioned as influential on the credit decision (as further stated in the theoretical framework section). The disagreement in itself may be interpreted as an indicator of uncertainty, even in the theoretical part of the assessment process. Furthermore, the start-up phase often comprise noteworthy amendments within the business and on the market, as described in NUTEK (1993) which has to be taken into account by the advisor when assessing the credit. As was pointed out by Green (1998), new businesses are essential to the economy, however, embarking on entrepreneurial paths is seldom an easy task and, as earlier mentioned, the credit risk is generally more rigorous when it comes to new business entities in contrast to well-established ones. Hence, due to the uncertainty involved in assessing these types of enterprises, it may be difficult to be granted a loan in the initiation phase. It is therefore of interest to study the assessment process as a whole and the factors influencing the final decision.

To summarize, the credit assessment process to start-up businesses is subject to a number of elements of vagueness and uncertainty, cumbering the procedure as a whole. This can be explained mainly by the lack of historical data in the company and the information skewness between the company and the advisor. One step in reducing the skewness is to gather information about the company and the specific industry, where particularly risky industries often have severe difficulties being granted credits. Moreover, evaluation of management becomes more central to the assessment when the advisor is dealing with start-up enterprises, however, due to the lack of effective methods of measuring management efficiency there may be subjective influence on the final decision. As a result, it is of interest to break down and analyse the credit assessment process to start-up companies by determining the central factors influencing the credit decision and analysing how the advisors deal with companies in different industries. This results in the following purpose and research questions.



1.3 Purpose

The purpose is to elaborate and analyse in order to describe the credit assessment process to start-up business entities conducted by two major banks in Sweden and the impending challenges that may surface when dealing with different industries.

1.4 Research Questions

- Which are the key factors influencing the credit decision when start-up business entities apply for financing?
- How does the bank deal with start-up businesses in different industries?

2. Methodology

This section aims to present and motivate the chosen method and research approach to the report. The section will also address the limitations, the choice of respondents and the validity and reliability of the material.

2.1 Research Approach

To answer the research questions a qualitative interview study has been conducted in order to enable the respondents to freely elaborate within adequate frames of the thesis problem. The method also permits extensive personal reasoning, reflection and reactions. (Trost, 2010) An abductive approach has been applied throughout the report, signifying a mixture of an inductive and a deductive method. (Samhällsvetenskapliga Fakulteten, 2011) Crudely disclosed, a deductive method has its basis on theory preceding observations/findings, whereas the inductive method is the exact opposite of observations/findings preceding theory, as explained by Bryman & Bell (2011). By using an abductive approach, the report is not limited to either method, but rather focuses on the actual findings and the assessment process. Hence the report connects the theoretical framework to the empirical data and conclusions are subsequently drawn based on the findings of the credit assessment and the theory regarding the granting of credits, as displayed below in Figure 1.

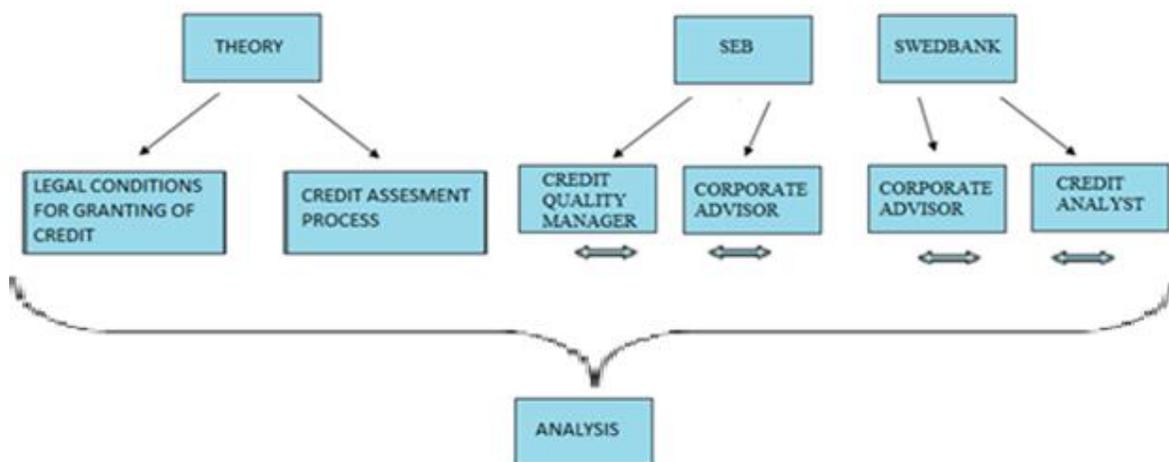


FIGURE 1: DATA COLLECTION. THE REPORT'S ANALYSIS OF THE CREDIT ASSESSMENT PROCESS HAS ITS BASE ON THE THEORETICAL DATA GATHERED AND THE EMPIRICAL FINDINGS, DERIVING FROM THE PERFORMED INTERVIEWS.

The left hand side of the model represents the theoretical framework, which has been subsequently divided into two categories. The left box signifies the essential legislations and the

right box represents the data findings from the databases regarding the credit assessment. The right hand side of the model shows the four interviews conducted, which have been permeated by the research questions and the thesis purpose. Two adequate respondents were selected from each of the two banks (single arrow) and responses were subsequently compared and analysed (double-headed arrow), laying the foundation for the empirical findings. Lastly, the analysis was conducted by connecting the theoretical framework to the empirical findings, drawing conclusions and comparing the findings.

2.2 Research Limitations

As this report has its general foci aimed towards the banks' and the individual advisor's viewpoint of the credit assessment, the credit applicant's perspective of the credit assessment is not as thoroughly explored, due to the difficulties in finding and interviewing adequate businesses in this particular situation. Moreover, the report is geographically delineated to the Gothenburg City area, as these offices are commonly regarded as strategically key in the region, due to their central location.

2.3 Choice of Respondents

The report analyses the granting of credit conducted by two of the leading banks in Sweden, Swedbank and Scandinaviska Enskilda Banken (SEB). The banks have been selected in regards to their leading positions on the Swedish corporate financial market. Ideally for the report all four major banks should have been interviewed, however, limitations have been set in regards to the time frame of the project. Both of the banks apply internal regulations to the assessment process, which may enable comparison between the institutions and allow further discussion. The banks are however also subject to national and international regulations and laws, as further elaborated in the theoretical framework.

The banks were concurrently contacted and the thesis subject was explained in order to facilitate contact with adequate respondents within the banks. The ambition was to interview a minimum of one corporate advisor and a manager and/or credit analyst in each bank. The advisor provided direct information on how the credit assessment was currently conducted, and the manager/credit analyst provided extensive knowledge and more theoretical information regarding the credit decision, complementing the advisor's answers and increasing the reliability

of the report. By interviewing respondents situated in the same geographical area, comparison could be facilitated and reliability increased, as the respondents were likely to have similar working tasks and be dealing with comparable customer segments and industries. A factor which could diminish the reliability of the report would be the respondents' dissimilar experience and background within the business, as presented below.

2.4 Anonymity

In regards to the interviews performed, the questions of anonymity and opportunity for respondents to review the material before publication was raised. Bryman and Bell (2011) state that it is often vital to maintain anonymity in order to get consent of participants for analysis of the data by others. By maintaining anonymity, the risk of interviewees not approving the material was reduced, and for one participant overlooking the material was a criterion for giving consent to the interview. Hence, one of the respondents is referred to as X throughout the report.

2.5 Respondents

Fredrik Roslin, Corporate Advisor, Avenue Office, Swedbank

Fredrik initiated his banking career in 2008, working with private customers. After one year on the private side he started working with corporate clients. Since the autumn of 2013 his client stock involves small and medium sized businesses with a turnover of 10-100 million SEK. Fredrik describes his current role as a coordinator between the customer, the bank and the analysts available.

Göran Lilja, Credit Quality Manager, District Gothenburg City, SEB

Göran has worked at SEB for 30 years, including 10 years on the private side and 20 years on the corporate side. He has also worked full-time in the financial covenant of SEB with union issues, as well as on the board as staff representative. Since two years back he is working as a credit quality manager in Gothenburg City, including seven offices.

Robert Dahlgren, Corporate Advisor, Avenue Office, SEB

Robert began working at the private side in SEB in 2007. After two years he went over to the corporate side, working primarily with small enterprises. In recent years his client stock involves larger companies with a turnover up to about 70 million SEK.

X, Credit Analyst, Gothenburg Region, Swedbank

X has been working at Swedbank for just over 10 years of which eight years have been as a corporate advisor. X now works as a credit analyst in the Gothenburg Region. As a corporate

advisor, X has dealt with small as well as medium- and large sized enterprises. The role as credit analyst functions as a sounding board in complex arrangements and insolvency issues, and X often work closely to the corporate advisors in the credit decision.

2.6 Interview structure

The interviews were executed in a semi-structured form, a mix of the structured and unstructured approaches. In practice, the interview structure can be described as a number of basic open-ended interview questions, allowing the respondent complete freedom in answering the question. (Holme, Krohn 1997) As was elaborated by Häger s.56 (2007) *“The more closed questions that are asked, the less the interviewed person tells you”*¹ This structure enables both parties the opportunity to ask follow-up questions, in order to elaborate further. The semi-structured interview form was chosen over other interview methods due to the qualitative nature of the thesis problem. The report was thus not restricted in question order or what answers the respondents felt closest to. The questions asked were permeated by the report’s purpose and research questions. The aim was to allow the respondents freedom to describe the credit assessment process from their own point of view rather than being guided by questions. The interview questions can be found in the attachments. The average length of the interviews were *circa* 60 minutes.

2.7 Data Analysis

After all interviews had been conducted, the data was analysed and compared, and subsequently divided into categories in regards to the assessment process and the research questions, in order to facilitate reading and comparison between respondents and banks. A recorder was used during the interviews, in order to retain as much of the interview as possible and to enable playback. Some questions asked were found not to be directly relevant to the research questions, however, were important for the continued fluency of the conversation and to apply a larger perspective to the process. The empirical findings chapter was later attached in a mail to the respondents, in order to allow the respondents to check for misinterpretations or misquotations. As feedback was overall positive and no misinterpretations were reported, the analysis was subsequently executed and conclusions were drawn based on the empirical findings and the theoretical framework.

¹ Translated from Swedish to English



The data to the theoretical framework was accumulated using databases such as Gunda, GUPEA, ScienceDirect, Emerald, Libris and Business System Premiere with key words used in the searching process such as credit process, granting of credit, credit analysis, credit risk, newly established enterprises *etcetera*. In addition, the two banks' webpages and annual reports were scrutinised prior to the interviews in order to create an understanding of the banks.

2.8 Validity & Reliability

The trustworthiness of the report has been determined by two factors, reliability and validity. Bryman (2012) explains the concept of reliability as to what extent the survey results would be similar if the study was to be repeated. In regards to the qualitative nature of the report, this is not the primary objective of the report and dissimilarities would be probable if the interviews were repeated. Reliability can be achieved by intersubjectivity and intrasubjectivity. Intersubjectivity is in this report achieved by allowing the respondents to remark on the empirical findings before continuing with the analysis, as earlier explained. (Johansson-Lindfors, 1993) Intrasubjectivity is described as being able to perform repeated observations of a phenomenon and still achieving the same data, hence the interview questions can be found attached as an appendix. Due to the nature of the qualitative study it is however of common practice to accept relatively low intra-subjectivity, which has been the case in this report.

Validity, is described by Bryman (2012) as the degree of which the conclusions are relevant for the report, and can be subsequently divided into internal and external measurements. In qualitative studies, internal validity is closely correlated to reliability, while external validity corresponds closer to transferability, i.e. whether conclusions can be applied or transferred to other contexts than the specific thesis. Internal validity was satisfied by ensuring that the study was conducted under the chosen method. Johansson-Lindfors (1993) argue that a disadvantage of conducting interviews is the risk of the researchers' subjective influence. Hence, it was of essence to maintain a neutral tone during the interviews. External validity was achieved by justifying the conclusions drawn and attaching the research questions as an appendix. To ensure the report's validity, the interview questions were thoroughly permeated by the purpose of the report, which, according to Bryman & Bell (2011), results in that the responses would also probable to be closely related to the purpose.



2.9 Source Criticism

The sources used have been reviewed according to Holme and Solvang's (1997) four phases: observation, origin, interpretation and usability. The observation phase involved extensive research on available material which could be of usage in the report, using the earlier mentioned databases and key words. Swedish sources and/or sources regarding the Swedish credit assessment process have principally been used, dating from late 1990's to present, as the credit assessment is likely to differ in foreign countries and an objective comparison would consequently be cumbersome. The interpretation phase involves an analysis of the gathered material and putting it in relation to the origins. In the final phase, the usability and credibility of the source were determined by comparing the sources to each other. Crudely put, when multiple sources support and corroborate the same phenomenon, the usability of the sources increase. (Ibid.) In terms of the empirical findings, respondents' answers may have been affected by the recorder used in the meetings. As one is recorded, one is likely to become more careful in answering and may choose to restrain from answering some questions e.g. due to internal policies and corporate privacy.



3. Theoretical Framework

This chapter aims to outline the theoretical findings of the credit assessment process to start-up businesses gathered through the databases. The section first presents legal preconditions and regulation regarding the assessment process and continues by providing a more general description of the credit assessment process and the factors influencing the decision, based on the literature studied.

3.1 Terms of definitions

The following concepts are of importance to the continuous content of the paper and are thus defined based on the significance that each concept has in the paper.

Almi: A state-owned company, commonly regarded as supplementary to the banks. The premise is that you cannot cover your financial needs through other institutions. The loans granted by Almi are often taken in coherence with an advisor from the bank. Almi usually charges a higher interest rate than banks to compensate for the higher risk involved, and is hence not a direct competitor to the bank. Almi also functions within advisory, assisting entrepreneurs with the problems they may face during their start-up phase. (Almi, 2014)

Credit risk: The credit risk can be defined as the risk that the borrower will not fulfil its obligations to the creditor, and the risk that they will not cover the creditor's claim. (Tegin, 1997)

Overdraft credit: An overdraft credit is a way of covering a company's varying working capital needs and functions as a liquidity reserve. The credit is also an efficient way to handle a company's transactions in and out of the company. Normally, the corporate account is connected to a Bankgiro or Plusgiro, which facilitates the handling of payments and receipts. (Tegin, 1997)

Security: Something given, deposited, or pledged to make certain the fulfilment of an obligation (Britannica, 2014)

UC: Refers to Upplysningscentralen, a Swedish company whose main task is to provide financial information on companies and individuals. "Executing a UC" is the action of ordering financial information about a company or a person, containing financial data and information about the current address, marital status, risk category and risk prediction. This is referred to throughout the empirical chapter (UC, 2014).

3.2 Legal Preconditions and Regulations

The Limited Liability Company Law, which first came out in 1848, has been of imperative essential for the Swedish business development. The introduction of limited liability companies meant a clear delineation of the company and the owner, facilitating the banks' assessment of the company's credit. After the introduction of the law, banks displayed an amplified tendency of granting credits, as they by legal means could sequester the company's shares a collateral. Hence the development of the law proved an important prerequisite for the creation of business and for the industrial revolution in Sweden by reducing risks, creating more favourable conditions for financing and facilitating investment stimulation. (Andersson, 2006)

The banking sector in Sweden is regulated in the Banking and Financing Business Act (SFS 2004:297) and especially chapter six, regarding general provisions of the bank, and chapter eight, concerning the regulations on granting of credit are of great interest to this report. In 6:1, it is stated that the bank shall never put itself in a situation where it cannot fulfil its obligations. 6:2 elaborates from the aspect of risk management, stating that the bank shall have control over the risks associated with the operations, and ensure that the risks do not jeopardise the obligations. Chapter eight discloses the issue of credit granting, and it is stated in section one that prior to the credit decisions, a risk assessment regarding the obligations shall be performed and that the credit may only be granted if the obligations are likely to be fulfilled. 8:2 states that the assessment shall be performed so that the creditor has enough information to assess the credit risk.

Basel III is a relatively new international regulatory standard that forces banks to meet certain criteria for capital and liquidity, which has been highlighted since the financial crisis in 2008-2009. The regulation functions mainly to lower the risk of financial bubbles and economic crisis. The effect is associated with a higher cost for the bank, which subsequently entails higher cost for loans. (Bank for International Settlements, 2013)

3.3 The Credit Assessment Process

Bruns & Fletcher (2008) and Caouette (2008) all disclose that even though the advisor has support from the formal and standardized framework and protocol in the bank, the individual analysis of the company is of great influence on the final verdict. According to Uchida (2011) there are three key factors in the credit assessment process; the relationship between the creditor and the credit applicant, the financial statements and the collateral involved in the credit. In contrast, a study by

NUTEK (1993) claims that the corporate advisor's main foci is aimed towards the business management, the business plan, financial information and that the various factors have salient impact on each other. In order to reduce the risk of a credit, it is important to ensure a coherence between the different factors. Bruns & Fletcher (2008) claim that credits from banks should only be granted to customers capable of repaying both the loan and the interest on the loan, and should be denied to those who cannot fulfil these obligations.

A study performed by Tillväxtverket (2011) discloses that the major banks use two types of methods for the assessment of a credit; a traditional relationship based lending model (relationship lending) and a technology based model (transactional lending). In the relationship lending model, the corporate advisor makes the assessment based on both measurable metrics and the interviews with the entrepreneur, combined with workplace visits. The transactional lending model has its base in so called credit scoring techniques, involving a classification of companies based on predetermined estimations of what type of business may have difficulties in repaying the loans. The study subsequently provided evidence that, in practice, both models are applied in the credit assessment. A common practice is that the applicant(s) schedule a meeting with the advisor and receive an individual assessment. This assessment is, according to Tillväxtverket, comprised of qualitative skills associated with the company and the entrepreneur as well as quantitative factors related to the financial situation. The scoring models apply to the quantitative part of the assessment, however, this may vary between banks.

The management of a company is of imperative essence in the credit assessment (Grunert & Norden, 2010); (Bruns & Fletcher, 2008); (Broomé et al., 1998). In order to grant a credit, it is a requisite that the creditor can form an opinion of the management of the company and analyse the company's capacity to repay the loan. Hence, comprehensive and unambiguous information from the management to the lender is vital in order to facilitate comprehension of the company, which can simplify the overall credit assessment and the final verdict. (Bruns & Fletcher, 2008) Compilation of financial and non-financial information is a weighty process in the assessment, as it facilitates understanding of the company's repayment ability. (NUTEK, 1993) As the company holds more information than the bank, there is an asymmetry or skewness in information between



the parties and in order to diminish the asymmetry, the advisor will need accumulate an adequate amount of data. (Landström, 2003) Broomé et. Al. (1998) provide evidence that the management of the company is also one of the most important factors for a company's survival and success. Hence managers shall possess useful and technical knowledge in order to achieve maximum results. The manager must also be able to plan, coordinate, control and supervise the work. In an ever-changing nature of environment, it is essential the leader reasons innovatively and independently changes target goals and implementation plans. However, it is cumbersome for the creditor to assess and identify managerial actions, mainly due to the difficulty in finding consistent measurement bases for what good management is. (Green, 1998); (Broomé, et. al, 1998) Hence, the creditors' knowledge of management along with the advisor's experience is of fundamental nature for the outcome. Bruns & Fletcher (2008) disclose in their study the relevancy of management comprehension of the logical nature of the assessment process, and the importance of identifying key factors that may affect the decision. To clarify, in order to increase one's likelihoods of a greater credit rating, it is a necessity to comprehend by what means the advisor's personal knowledge may be of influence in the final decision. A higher credit rating may possibly qualify the business entity to finance the capital requirements and reduce its cost of debt. Furthermore, the authors claim the final decision of the credit cannot always be undertaken by the individual advisor, but may need approval by a chief or analysts if there is a high risk involved in the credit, or if there is a vast amount of money to be granted.

NUTEK (1993) claimed that the assessment process may be handled differently by advisors, elaborating that some advisors put more emphasis on analytical numbers and data, whilst others rely more on intuition and the subjective perception of the company. However, if the credit applicant has taken on similar projects with successful outcome in the past, it is always of beneficial nature in the assessment, and the likelihood of the company to meet the requirements for a credit subsequently increases. Grunert & Norden (2010), show in their study that bargaining and information are two key elements in the granting of credit process. Soft information, such as management skills and character, are of high essence on the bargaining power of the customer and, according to the authors, these factors are often considered more significant than the financial information. By producing a business plan, the company can communicate valuable information



such as the business strategy and market goals to external investors. According to Bruns & Fletcher (2008), a well written and distinct business plan normally facilitates the creditor's comprehension of the company, which subsequently boosts the chances of receiving a credit. Green (1998) states that the problem when analysing the company's business plan and business management is the lack of comprehensive methods to assess such qualitative factors, which in turn can make it more difficult for the advisor in his assessment and may affect credit rating negative.

In the study by NUTEK (1993) it was also revealed that corporate advisors may handle the relation to the company differently if the two parties are situated in a major city or in a small city. NUTEK provided evidence suggesting advisors in smaller cities were more positive to a close relation with the business entities and often had extensive social networks, commercially as well as socially. Advisors in major cities, however, often retained the relation on a professional level and did not value the relationship as highly. Andersson (2006) also showed that advisors with less experience did not review the applications as thoroughly as the more experienced advisors, and that there was a tendency amongst the advisors with more experience to decline more applications in contrast to the less experienced. Moreover, NUTEK (1993) disclosed that advisors which have experience from outside the banking business found it easier to assess the business plan than advisors who had only worked at the bank.

Bruns & Fletcher (2008) are convinced there are three possible actions available for banks in order to reduce credit losses. First, accumulating extensive amounts of information regarding the business entity, financial as well as supplementary data associated with the company. This is executed in order to re-assure the repayment ability of the entity. Secondly, demanding the company itself takes responsibility of some of the investment. Third and lastly is to limit the credit risk by demanding securities from both the enterprise and the managers privately. It is a requisite that the company keeps a high proportion of liquidity and can simultaneously offer the bank reliable securities in relation to the granting of the credit. NUTEK (1993) corroborates this statement, elaborating further the importance of securities, in the circumstances the business entity is not able to fulfil its obligations. Moreover, personal securities can also be seen as an element of stimulus and incentive to do well, according to Bruns & Fletcher (2008).

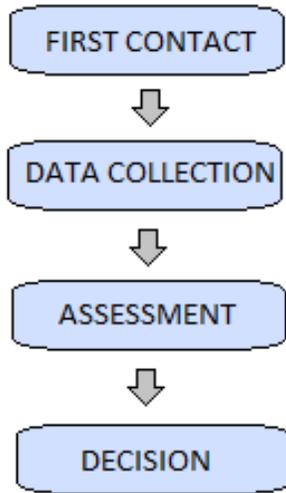


FIGURE 2: STAGES IN THE GRANTING OF CREDIT. PROCESSING OF NUTEK (1993) P.21-22

Figure 2 concludes the fundamental stages of the assessment process of granting credit, according to NUTEK (1993). The first contact generates a first impression, which according to the study is sometimes essential even to the final decision. The data collection is the theoretical foundation for the assessment, but may be cumbersome in regards to the asymmetry of information. The assessment of the data collected is the evaluation stage, where all data is compiled and scrutinised. The assessment subsequently leads to the final verdict, or the decision, determining if the credit applicant will be granted a credit or not.

3.4 Conclusion

The credit assessment process is regulated by national and international laws and by internal principles of the banks. Key factors in the assessment are; management, the relationship between creditor and credit applicant, the financial statements, collateral, the business plan and past experience. Finally, the assessment process may also be handled differently by advisors, in regards to their preferences, location and past experience.



4. Empirical Findings

This chapter aims to outline the findings of the performed interviews. The material has been divided into categories, selected in regards to the category's relevance to the assessment process. Rather than outlining each respondent's answers separately, the categories encompass responses from all four respondents simultaneously, pointing out similarities and differences, in order to facilitate reading and comparison.

4.1 Business Plan, Budget & UC

Financing start-up companies is more cumbersome in contrast to established companies, since the former does not have any historical activities (Robert, SEB). Based on this, all of the respondents therefore conclude that it is preferred that start-up companies hand in a two-to-three year business plan, where the upcoming year shall be extensively elaborated and explained. The business plan shall preferably be comprised of a background section, a smaller CV of the owner(s), information in regard to which individuals perform which tasks in the company and finally a comprehensive job description along with actions on how to proceed (X, Swedbank). There are no formal format requirements for the business plan, however it is salient it is constituted in a manner that makes it presentable, thorough, and enables quantification for the businessmen (Robert, SEB). It is not uncommon that a smaller market analysis is opted for and thus included, where the company presents assumptions and conclusions of the current market in question, dissect the competitors, analyse demands *etcetera*. A good business plan shows the advisor that the customer is trying to be serious and legitimate in their actions (Fredrik, Swedbank). Robert at SEB prefers that the customers do all of this on their own, as this exemplifies that you are in control, serious and make an overall good impression. If the customer were to require assistance in this phase, the advisor might subsequently recommend to contact institutes such as Almi, Drivhuset or Nyföretagarcentrum, which can be of assistance regarding e.g. business plans or budgets. All of the respondents in their accounts unanimously agree that a balance sheet and income statement shall be included alongside the business plan. It is of essence that the applicant can account and back up the figures for the deal and present suggestions on how to generate income.

All of the respondents also claim to execute a UC², by searching through the criminal record of the company entity and all of the owners of the company, specifically divulging that scanning through criminal records, previous corporate activity and private economy history are commonplace. This procedure is in place to ensure that all the owners of the company in fact meet the standards of acceptable corporate behaviour and to impede fraudulent behaviour. (Robert, SEB) Since companies in the early initiation phase do not have much operational activity the companies usually generate a standardized risk class, which is commonly relatively high. (Fredrik, Swedbank) In this case, the overall assessment foci instead shift toward assessing the corporate leaders' competencies and abilities. (Robert, SEB) Göran further stated that Googling the owner(s) as a secondary source of information is not uncommon.

4.2 Types of Credit

The most common types of company credit are the overdraft credits and the investment loans, where three out of the four respondents provide evidence suggesting that the overdraft credit is most often opted for in Gothenburg inner-city. The main reason for this is the abundance of service companies, such as restaurants and construction businesses, visiting the inner-city offices. Many of these companies are often in need of liquidity resilience or strengthening and flexibility, and thus opt for an overdraft credit rather than an investment loan. This can also be partially explained by the companies long credit periods, or the need for liquidity increase during the initiation phase (Fredrik, Swedbank). Robert at SEB is, however, dissident to this opinion and claims that investment loans are more common. He argues that it is more profitable for the bank using investment loans as this type credit is easier to survey, have a fixed turn-over period in time and a specific goal that bounds the credit. The customer can also continuously improve his position by amortizing, which improves the balance of the credit. Furthermore, Robert explains that the boundaries that delineate what a credit actually constitutes are becoming more diffuse, which can be explained by the rise and growth of the service companies "*It is far more complicated to finance an asset that clocks out at 17:00 in the afternoon, compared to a new machine*"³ (Robert).

² The action of ordering financial information about a company or a person, containing financial data and information about the current address, marital status, risk category and risk prediction.

³ Translated from Swedish to English

4.3 The First Meeting

Every meeting is different and thus fine-tuned depending on the individual customer and their particular situation. It is the customer's obligation to provide the advisor with adequate information, and then it is the advisor's subsequent obligation to evaluate and/or audit and ultimately provide a conclusive judgment. In other words, it is in the customer's interest to persuade and convince the advisor that he or she fulfils the prerequisites and checkboxes that will grant a company loan, and not the other way around (Fredrik, Swedbank). All of the respondents provide evidence that the basic and elementary standard questions are the same for all segments of customers. For example: What does your business model look like? How can this be implemented and is it profitable? Based on the responses from the applicant, subsequent questions are asked as the meeting goes on. Robert at SEB claims that the essential parameter or key concept is to facilitate a context where the customer talks as much as possible about their model or idea. If the customer is silent or not very loquacious, this might be interpreted as signs of cautiousness as the customer probably has failed to properly and extensively formulate their business idea prior to the meeting.

Ultimately, it is the advisor's role to set the final rating, however, there are rigorous frameworks that limit the advisor's possible effect on the aforementioned rating (X, Swedbank). According to Göran at SEB, there is always a rift in which the risk of subjective assessments or judgments might grow. This can either be the result of the advisor's experience from the industry, but also by the cautionary perspective to a certain conception or situation. All of the respondents state that if records of non-payment or other forms of delinquency are surfaced, or mishandling of private economy, this will be weighted in the overall decision to grant credit to the company. All of the aforementioned are hence flagged as suspicious behaviour (X, Swedbank). Three of the four respondents also suggest it is important, for the bank and the customer, to have the customer's commitment in the same bank. From the banks vantage point, this facilitates a more efficient overview of the customer's aggregated financial situation and economic activity. Since the manager's private economy is largely dependent on the result of the company's business activities, drawing conclusions on private commitment, under these circumstances, is effective. Therefore, if the company is in the red, this can be seen as a warning of low private commitment and *vice versa*. For the customers it is beneficial to compile all bank activities in one bank, as this makes discounts and/or other likewise offers possible. Furthermore, previous experience from the industry might

weigh as heavy as the private commitment to the bank in the credit granting decision. An example of this can be a previous employment at a company within the industry, but having discharged that duty and now decided to start a own business, which is always categorized as favourable and therefore generates a subsequent lower class of risk (Fredrik, Swedbank). All of the respondents claim that the personal assessment of the owner(s) is of weighty importance in the decision process and if the chemistry between the advisor and applicant is not reciprocally satisfactory, a colleague can be introduced as a solution, but this is quasi infrequent. Fredrik at Swedbank claims that it is in every advisor's professional code-of-conduct to diminish the possibility of the aforementioned. He elaborates that if one does not have a good feeling one could waive the deal, even though the business plan is satisfactory, however it is consensus to introduce the case to a colleague instead. Fredrik explains that these situations are uncommon, but that the bank still is a listed entity and have the privileged right to choose who they wish to embark on business paths with.

The four respondents also explain that all the information attained from the meeting shall be documented by the advisor in a PM, containing references or points in regard to cash flow, cash flow analysis, security framework analysis, business description from the adviser's point-of-view, relevant key performance indicators and a profitability calculation conducted by the bank. This PM will then constitute the foundation for the credit granting decision, which is undertaken with another adviser, an office chief or a credit analyst (X, Swedbank). All of the respondents account for an apparent duality in the decision-making, as one colleague might discard while the other might approve. Depending on the decision mandate one possesses, it may be sufficient to consolidate another advisor to get the decision approved. However the colleague's physical presence is not required during the customer meeting, rather the PM is used as a source of viability and as a decision basis (Fredrik, Swedbank). If the circumstances allow for a simple decision, the advisor himself can make the final decision, but is aided by the usage of computerized data system that approve the decision (X, Swedbank). In the instances where the loan surpasses 500.000 SEK, protocol dictate that the matter shall be passed on to either an office chief or a credit analyst. Even in the circumstances where the amount of credit cannot be fully secured an office chief shall be consulted, regardless of the surpassing of 500.000 SEK or not. The sole salient aspect in every case is to cover the risk, in the case of bankruptcy (Fredrik, Swedbank).

4.4 Securities

Loans to newly-founded limited companies can generally be secured in three different ways: company mortgage, mortgage lien or personal guarantees. The guarantees can be set to 100% and is commonly divided among owners, in the cases of ownership plurality, but assigning proportional guarantees in relation to the owners different solvencies is also opted for (Fredrik, Swedbank). All of the respondents claim that newly-founded enterprises, who usually loan within the range 100.000-500.000 SEK, personal guarantees is more or less a necessity. The bank also prefers to see the owner(s) a personal push of capital into the company, in excess of the loan itself. This is preferred since these actions display a credence in the business idea and that one is willing to “*plunge into the pool of uncertainty and risk*” (Fredrik, Swedbank). Since the bank also strives for a “wholesome” granting of credit, based on repayment ability and stable cash flows, rather than on exclusive personal assessment of the owner(s), the cash flow analysis provided by the applicant(s) is of unequivocal importance in the credit granting decision.

All of the respondents disclose that if any insecurities are surfaced or apparent when making a decision, one path of procedure is to collaborate with another actor, such as Almi⁴. A meeting is then often scheduled with the customer, advisor and an advisor representative from Almi. In these instances the bank and Almi share the risk in the credit. The sharing of the risk is not the bank’s result of fright of financial loss, but rather seen as an action that provides extra assistance and financial inputs right from inception phase one (Fredrik, Swedbank). From the applicant’s perspective this might not be classified as an optimal solution, due to the fact that Almi is both more expensive, only grant investment loan and have shorter repayment periods than banks credits. From the bank’s perspective this is however regarded as an extra security, as Almi take a larger share of risk than the bank. Almi will then take a more symbolic guarantee on the total credit and company mortgages on top of the bank’s mortgages (Robert, SEB).

4.5 Main Factors in the Credit Granting Decision

- According to Fredrik at Swedbank one of the most accentuated factors is the relationship with the customer and the personal assessment. To elucidate his stance he argues that one has to consider “*is this a customer I want to have a continued relationship with in 10 years*”

⁴ A state-owned company, commonly regarded as supplementary to the banks. Almi usually charges a higher interest rate to compensate for the higher risk involved, and to not compete with the bank.



from now?”⁵ Having a close relationship and reciprocated trust between advisor and customer facilitates a context where straight answers and direct communication is more conventional. Moreover the business plan is salient in the credit granting decision. It is important that it is structured and cohesive in its structure and includes a balance sheet along with an income statement that amplifies and enunciates a stable repayment ability.

- Robert at SEB claims that the business model and the underlying questions on how to actualize and execute the model are the most central factors. However, trust and relationship are also seen as key.
- According to Göran at SEB the realism and credibility of the business plan and budget are the most imperative cornerstones. However, trust for the customer and his ability to channel thoughts into numbers on paper are highly sought after factors.
- X at Swedbank argues that the two most salient factors are the owner(s) of the company and their repayment ability and the direct cash flows along with the business plan. What kind of person is this? Why does he/she wish to start this business? What procedures shall be taken? What experiences do we have? It is in the advisor’s interest to explore these questions and find answers from the open-ended questions addressed to the customer.

4.6 Different Industries

The company segments are in both banks categorized depending on the turn-over rather than industries. There are no industry-specific or industry-expert advisors, instead all advisors are expected to have satisfactory general expertise or knowledge within various industries. The advisors are also expected to possess a certain amount of knowledge within the near geographical area and Göran at SEB argues that it is important that the customers contact the office situated within the geographical area in which future operations will be conducted. Fredrik at Swedbank argues that there are experts and industry analysts at disposal for every area, both internally and externally, if one has any doubts and uncertainties within a market. Göran, however, argues that “*it is not worth the cost for start-ups to attain the services of industry analysts to get an evaluation of their business plan*”.⁶

⁵ Translated from Swedish to English

⁶ Translated from Swedish to English

All of respondents claim that if one is unsure or not comfortable, an advisor has the power to discard the deal or increase the security of the credit. Robert at SEB states that in these situations Almi is often contacted, as they have specific analysis departments for industries and risks at their disposal. Moreover he states that there are certain unofficial “blacklists” within the bank of certain high-risk profiled industries. For example restaurant and scrap dealing are industries which are often associated with problematic occurrences and where large amount of cash are involved, which increases the risk of dirty money. Even e.g. taxi and hairdressing are seen as risk industries, as they are every so often over-established and abundant on the market. In such instances a market- or competitor analysis would be more relevant and required. The manager must also ask himself what specific action will lead to success where so many others fail.

4.7 Regional Differences between the Offices.

All the respondents argue that the main credit decisions shall have the same standardized and homogeneous framework and protocol in place regardless of office location. Fredrik at Swedbank discloses that as an advisor, one must be flexible in his role and be able to distinguish the different cultures at play at the respective office; as all in all we are but humans. At the smaller offices it is possible that one might be more acquainted or have deeper relationships with the customers, which might have an effect on the decision, whether positive or negative. Fredrik also states that the customers expect the offices to function differently in adherence to where the office is situated; a restaurant owner on Avenyn prefers a fast paced and efficient meeting, whilst e.g. an agriculturalist expects a more personal and profound meeting.

X at Swedbank argues that there are no apparent differences in the approaches taken by advisors, however the competencies and knowledge are fluid and can be different from office to office. Moreover, every step or procedure taken by an advisor is registered in an in-house internal system and the advisor compiles the information from the customer meeting to a PM himself, which erodes the possibility of differences to emerge. If, however, big issues or problems arise or are discovered during a credit grant it is the office chief’s responsibility to deal with the matter. Differences will always arise depending on the subject one meets, since all humans are not alike and there are no explicit templates for conversations and questions which are universal. The questions are instead of open-ended nature in order to attain and understand the business. Conclusively, one might

suggest that the final decisions shall be the same, even though the paths taken along the way and questions posed are different.

Robert at SEB is convinced that the approaches are unarguably different from office to office, and that rural offices have a tendency to know more about the customer than the urban ones. Nevertheless, if one has an impeccable track-record or is regarded as a reliable person, this is certainly more important. The decision itself and the integral procedures shall be the same, however it is easier at an early stage to construe if one shall proceed or waive the offer. Göran at SEB argues that by working in an urban and central city location, anonymity is more in play and as an adviser operating under these conditions, one becomes more reliant and dependent on sources of indirect information such as credit record agencies and Internet searching. He explains that it is occurring that advisors Google the customers, and that this procedure is growing exponentially in usage due to the surge of accessible information on the internet. However, fundamentally, the approaches in theory shall be the same.

4.8 Conclusion

Financing start-up companies is more problematic than financing established companies. A business plan and a budget shall be handed in by the manager and the advisor will execute a UC to check for fraudulent behaviour. Overdraft credits and investment loans are the most common types, where overdraft credits are most opted for in the area. Every meeting is unique depending on the situation. There are general frameworks regulating the process, however, there is still a risk for subjective assessments. All information from the meeting shall be documented in a PM and the final decision is then taken with another colleague in the bank, based on the PM. Loans can be secured by either company mortgage, mortgage lien or personal guarantees, where the latter is more or less a necessity. If there is uncertainty in the decision, the bank often shares the loan and risk with Almi. Important factors in the assessment are: the business plan, the budget, how to execute the plan, the personal assessment of the management, the relationship with the customer and the repayment ability.

Advisors are expected to have general knowledge within industries and the local area, but there are no industry-specific advisors. Swedbank claimed to have industry experts at disposal, whilst SEB argued that it was not worth the cost. The decisions shall have the same standardized framework regardless of office location, but there may be differences, due to the level of acquaintance with



the customers, the customers' expectations of the meeting and due to the nature of the meeting, which involves open-ended questions.



5. Analysis

This section aims to analyse, elaborate and connect the performed interviews with the theoretical framework. The chapter is comprised of the same headings as the empirical findings chapter, in order to facilitate reading and comparison.

5.1 Business Plan and Budget

The respondents all conclude that it is necessary to hand in a business plan and a budget, as supported by Uchida (2011) and NUTEK (1993). The business plan plays a key role in reducing the asymmetric information between the parties, as elaborated by Landström (2003). Furthermore, the UC provides in depth information regarding criminal records, corporate activity and economic history *etcetera*. This part is fundamental to the assessment, as it divulges salient and profound data on the entrepreneurs' overall conduct. Conclusions, both private and for the company can be drawn from this data. Nevertheless, none of the respondents indicated there was a distinct template or a homogeneous framework dictating how the business plan should be arranged. Two of the respondents define this matter as the customers' pre-meeting task, as it displays legitimacy and seriousness towards the creditor. This deduction is in line with Bruns & Fletcher (2008), elaborating the general relevancy of management comprehension of the assessment process in order to identify key factors that may influence the credit decision.

5.2 Types of Credit

Overdraft credits and investment loans are the most common types of credits, where three out of four respondents suggest the overdraft credit is most opted for in the area, due to the abundance of business-oriented enterprises. A problematic aspect to the growth of the service industry is that the boundaries that determines the credit's purpose become more diffuse, as many service companies are in need of financial resilience, but lack physical security entities, such as a machine or a warehouse. The advisor must therefore find other means of securing the credit.

5.3 The First Meeting

Tillväxtverket (2011) claim that it is common practice to schedule a meeting and conduct a personal assessment of qualitative and quantitative factors. This was corroborated in the interviews, and the respondents claimed that the meetings are fine-tuned depending on the individual. The respondents all agreed that elementary standard procedure and queries are the same amongst segments and, based on the responses, subsequent questions are asked. Hence, there is no homogenized template



permeating the meeting. Moreover, despite rigorous internal and external frameworks, such as the Banking and Financing Business Act, Basel III *etcetera*, according to the respondents there is always a prospect of subjective assessment, as further corroborated by Caouette (2008) and Bruns & Fletcher (2008). This can, according to the respondents, be the result of experience or an overall cautious approach, where Andersson (2006) and NUTEK (1993) also explain that advisors benefitting from outside banking experience found the business plan easier to assess than others.

Private commitment in the bank is always regarded as advantageous, as it allows the advisor to benefit from internal information, which can be adequately expedient in the final verdict. The interviews revealed that as new start-up companies seldom have valuable historical data, the advisor will analyse the private commitment as well as qualities and abilities of the management. Information attained from the meeting shall subsequently be documented in a PM containing relevant points in regards to the credit granting decision, which is ultimately taken along with another advisor, an office chief or an analyst, as a result of the prevailing duality in the verdict. The aforementioned is in unison with Bruns & Fletcher (2008), corroborating the duality in the decision. Moreover, there is an unanimity amongst the literature and the respondents that the personal assessment of the manager(s) is of weighty essence in the decision, and that the advisor has authority to renounce the credit if he/she does not have credence in management, despite encouraging financial data, as also confirmed by Grunert & Norden (2010); Bruns & Fletcher (2008) and Broomé, Elmér and Nylén (1998). However, Green (1998) and Broomé, Elmér and Nylén (1998) conclude that this poses a salient problem, as there are yet no resolute methods of assessing such qualitative factors, which might subsequently obstruct the objectivity of the evaluation and induce a more biased and subjective verdict, as stated by Caouette (2008) and Bruns & Fletcher (2008).

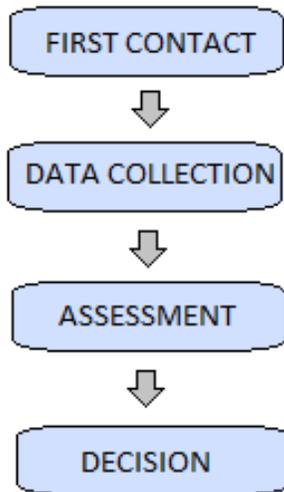


FIGURE 2: STAGES IN THE GRANTING OF CREDIT. PROCESSING OF NUTEK (1993) P.21-22

Returning to Figure 2, as presented in the theoretical framework, one can conclude that the model applies adequately to the respondents' answers. However, the data collection phase can often be initiated prior to the first contact, if the first contact is defined as the first impression one may have in the first meeting. This is because the applicants are required to send in the business plan and the financial statements before the meeting and as the advisor may use e.g. Internet sources to gather information on the company and management prior to the meeting. One may however argue that the first contact can be initiated when the applicant first calls or sends an e-mail through the Internet bank to set up a meeting, which would ultimately reinstate the order of the model.

5.4 Securities

Bruns & Fletcher (2008) claim there are three alternatives to assessing the credit losses for banks; to gather information on the entity, to demand a shared investment or to use corporate & personal securities as alternative wherewithal. All respondents endorse using these methods. Personal guarantees are generally regarded as a requisite and risk is often shared with both the company and governmental investment entities, such as Almi. Personal guarantees could also be seen as an element of stimulus and incentive, as a possible bankruptcy consequently would damage the manager's private economy as well, even though the business is subject to the Limited Liability Company Law. As stated by Bruns & Fletcher (2008), credits should only be granted to customers capable of repaying both the loan and the interest on the loan, and should be denied to those who cannot fulfil these obligations, which can also be confirmed in the Banking and Financing Business Act and by the respondents.

5.5 Main Factors in the Credit Granting Decision

Regarding the most accentuated factors, theory was found to be somewhat dissenting, which may perhaps be clarified by the nature of the assessment procedure. As was elaborated in the study by NUTEK (1993), there may also be differences in the assessment process amongst advisors, claiming that whilst one may put emphasis on analytical numbers and data, another may find

credence in the subjective intuition and the overall perception of the company, which can also be exemplified by the relationship vs. transactional lending model explained by Tillväxtverket (2011). This is in line with the respondents' answers, as they to some extent responded differently. However, both the theory and the four respondents claimed that the trust for the management is one of the most imperative factors in the assessment. This may pose as a contributing factor to why there may be a subjective and biased part of the process, as it is difficult to measure management efficiency in such an early stage, as earlier explained. In addition, the business model and the repayment ability were also mentioned as salient features in the credit assessment.

5.6 Different Industries

Advisors are expected to have satisfactory general expertise, but there are no industry-specific advisors. Moreover, the respondents disagreed regarding the availability of internal expert sources, as Swedbank claimed there were experts available for all industries, and SEB claimed they had quasi none due to the cost of attaining the services. This may be a difference between banks or between the advisors' perception and knowledge. SEB's statement is in line with Landström (2003), claiming that this type of industry specific information is costly and time consuming for the bank to attain. Hence, one can conclude that the amount of time the advisor spends gathering data on the industry may vary with the cost of attaining the data and the interest the bank has in the particular credit. Regardless of which, all respondents claim that if there is uncertainty involved, the advisor has the power to increase the amount on the security or waive the deal off. In these circumstances, collaboration with Almi is highly encouraged. From the business manager's perspective, this may be regarded as adverse, if the advisor is not able to properly analyse the business plan due to lack of knowledge in the industry.

5.7 Regional Differences

As earlier explained, there may be a differences in how the advisors proceed in the assessment. NUTEK (1993) also showed that advisors may handle the relation to the company differently if situated in major or smaller cities. The respondents argue there is an overall homogeneous framework in place, which encumbers fundamental differences between offices. However, the respondents corroborate on the fact that there may be dissimilarities in approaches and knowledge, explaining that reliance on second hand information, e.g. UC, Internet searches *etcetera*, become more important in city offices and that first-hand information and personal acquaintance may have



greater impact on the verdict in more rural areas. The aforementioned is in line with Andersson (2006), claiming that advisors in smaller cities are more optimistic to a close relation with the businesses, while major city advisors' foci is to a greater extent aimed on the professional relation. However, one must not omit the fact that all four respondents valued the relation with the company as one of the most accentuated factors in the credit granting decision.

6. Conclusion

This section aims to answer the research questions and draw conclusions of the findings by connecting the theoretical framework, the empirical findings and the analysis.

The purpose of this report was to describe, elaborate and analyse the credit assessment process to start-up business entities conducted by Swedbank and SEB and to analyse the impending challenges that may surface when dealing with different industries. The aim was to achieve this by answering the research questions below, using a qualitative method and an abductive approach, allowing the theoretical framework to complement the empirical findings of the four interviews conducted.

- Which are the key factors influencing the credit decision when start-up business entities apply for financing?
- How does the bank deal with start-up businesses in different industries?

The credit assessment process is permeated by national and international laws such as the Banking and Financing Business Act and Basel III, but also internal regulations of the banks. With these regulations, major differences between advisors' execution of the assessment can be reduced. However, there is no strict template or homogenised framework to slavishly follow in the assessment. Rather, the advisor is free to ask adequate questions in order to distinguish and ensure the viability of the affair. Hence, information (financial as well as soft) is central to the decision and has its basis on the skewness of information between the applicant and the bank. The business plan shows the company's strategy and that the applicant is serious and in control of the situation. It is therefore important to hand in to the advisor prior to the meeting. Moreover, the budget, income statement and balance sheet presents the financial strategies of how to generate income and to repay the loan and embody important financial data to hand in to the advisor. By obtaining a credit report (executing a UC) the bank can ensure the applicant meets normative corporate behaviour and can impede fraudulent activities. Private commitment in the bank is always regarded as advantageous, as it allows the advisor to benefit from internal information, which may affect the final decision for the company. One of the most accentuated factors influencing the granting of credit is the personal assessment of the manager(s). However, such an evaluation is often cumbersome due to its qualitative nature and the difficulties in measuring a management's performance, which might

subsequently obstruct the objectivity of the evaluation and induce a more biased and subjective verdict. The interviews disclosed that the advisor hence has authority to renounce the credit if he/she does not have credence in management, despite encouraging financial data. Moreover, personal guarantees are generally regarded as a requisite and risk is often shared with both the company and governmental investment entities, such as Almi. Company mortgage and mortgage lien are two other alternative often used, and it is common to secure the credit with a mix of securities. The general rule states that credits should only be granted to customers capable of repaying both the loan and the interest on the loan, and should be denied to those who cannot fulfil these obligations. Lastly, the relationship between the creditor and the applicant is of weighty essence in the credit decision, and it is important that the applicant has some insight in the assessment process in order to enhance his/her chances of being granted a credit.

In terms of dealing with start-up businesses in different industries, the report's findings were rather straightforward. Advisors are expected to have general knowledge of industries and the local geographical area, but there are no industry-specific advisors. Swedbank claimed to have industry experts at disposal, whereas SEB argued that it was not worth the cost. If there is uncertainty involved, the advisor has the power to increase the securities or waive the deal off. In these circumstances, collaboration with e.g. Almi is encouraged. From the business manager's perspective, this may be regarded as adverse, if the advisor is not able to properly analyse the business plan due to lack of knowledge in the industry.

To summarize, when assessing the granting of credit to start-up businesses, there is only limited historical data available. The main factors influencing the credit decision are; the assessment of management, the relationship between the creditor and the applicant, past experience, credence in the business plan, payback ability and securities available. Due to the qualitative nature of the assessment, the decision may be subjectively biased by the advisor's opinion, and in terms of waiving the deal the advisor has power to do so if he/she does not feel confident with any of the factors involved. To be granted a credit, however, the deal must be properly secured and approved by another advisor, chief or analyst before being granted.

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Attachments

Interview Questions⁷

- How do you proceed when someone seeks financing to a start-up company?
- What factors are taken into account?
- What factors are the most emphasis put on?
- Are there any special routines when lending to start-up companies compared to the already established ones?
- How do you proceed when it comes to different industries?
- How do you proceed when the firm works within a risky industry?
- Does the bank actively seek new businesses?
- What is your view on collateral?
- How can the approach differ from case to case?
- How is the credit risk assessed in a start-up company?
- How do you ensure that the risk taken does not exceed what is required by law?
- What sort of credit check do you perform when a start-up company applies for and has no historical data?

⁷ Translated from Swedish to English