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INVESTIGATING THE DEMAND OF SMALL HOTEL AND RESTAURA BUSINESSES FOR BANK FINANCING: THE CASE OF TURKEY

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ABSTRACT

The literature argues that small businesses are highly dependent on bank financing due to their inability to access the capital markets. We paint a different picture in this paper that analyzes the demand of small hotel and restaurant businesses for bank financing in Turkey. The results of a countrywide survey done with the owners/managers of the businesses that were responsible for the financial affairs are used for the analysis. We find that the majority of the businesses in the sample did not make a loan application in the last three years. Moreover, the tendency of firms to apply for bank financing did not change with age. When asked whether their firm were in a position not to apply for a bank loan in the last three years even if they needed bank financing with the idea that the application would be rejected, nearly all the participants responded negatively. The majority of the owners/managers of the firms declared that their firm's demand for bank loans would increase with lower interest rates and lower collateral requirements. On the other hand, firms that would have a higher demand for bank loans if there were a reduction in interest rates and collateral requirements were younger firms.

Keywords: Small businesses, Hospitality industry, Bank loans, Turkey.

Contribution/ Originality

The paper's primary contribution is the finding that the majority of the businesses did not apply for a bank loan in the last years. The study documents that younger firms would to have a higher demand for bank loans if there were a reduction in interest rates and collateral requirements.

1. INTRODUCTION

Banks are hesitant to loan to small businesses due to the information asymmetry that stems from the absence of sufficient accounting and financial records (UNCTAD, 2001). High probability of failure, provision of insufficient collateral and high sensitivity to economic ups and downs are considered to be the other reasons of the hesitancy of banks (Badulescu, 2010). The literature suggests that failure to obtain the necessary bank financing is a critical problem for small businesses because these firms are highly dependent on bank financing due to their inability to access the capital markets. There are also studies in the literature that suggest that small hospitality businesses encounter difficulties in accessing bank financing although they largely rely on bank financing. Elgonemy (2002) and Tsai *et al.* (2011) argue that banks are reluctant to lend to small hospitality businesses because hospitality business is considered to be risky due to the high sensitivity of operating results to seasonality and economic developments. Lu and Chiang (2003) suggest that difficulties experienced in accessing bank financing result in lost chance for growth in the hospitality industry. Jauhari and Rishi (2012) contend that banks require high interest rates for loans they provide to the hospitality industry. Moreover, Sanjeev *et al.* (2012) argue that negative working capital that results from long credit periods also make hospitality industry firms obliged to pay high interest for bank financing. In a context where the literature basically contends that small businesses face financing constraints, examining the demand of small hospitality businesses for bank financing would make a good contribution to the literature. The purpose of this study is to investigate the demand of small hotel and restaurant businesses for bank loans in Turkey. The article is structured as follows: Section 2 depicts how the data was collected. Section 3 gives the empirical results and section 4 concludes.

2. DATA COLLECTION

The results of a countrywide telephone survey done on small hotel and restaurant businesses are used for the analysis. The businesses in the sample employ 10 to 20 people.

Table-1. Sample demographics for the hotel and restaurant businesses

	N=94	%
Number of employees		
10-15	88	94
15-20	6	6
Firm age		
1-3	22	23
4-10	41	44
11-24	21	22
25-40	10	11
Owner management		
Owner-managed	85	90
Not owner-managed	9	10
Group ownership		
Group-owned firm	4	4
Not a group owned firm	90	96
Number of owners		
One owner	63	67
Two owners	24	26
Three or more owners	7	7

Source: Own dataset.

The questionnaire used in the study included questions on the perceptions of the owners/managers on the demand of their firms for bank loans.

The questionnaire was piloted to evaluate the content and necessary adjustments were made where appropriate. Using convenience and snowball sampling methods, 94 owners/managers of small hotel and restaurant businesses were interviewed. The businesses in the sample operate in six cities of Turkey where the highest population of small and medium sized enterprises exist. Table 1 presents the sample demographics for the hotel and restaurant businesses.

We see that 94% of the firms in the sample employ between 10 and 15 people. The firms in the sample are primarily owner-managed firms. 96% of the firms are not a group-owned firm. Being a group-owned firm may affect the demand for bank loans because of the availability of internal capital markets in group-affiliated firms. The majority of the firms in the sample (67%) are owned by one person.

3. EMPIRICAL RESULTS

Summary of the responses given by the participants for the dichotomous questions is presented in Table 2.

Table-2. Summary of the responses given by the participants for the dichotomous questions

	N=94	%
Did your firm apply for a bank loan in the last three years?		
Yes.	33	35
No.	61	65
Did your firm apply for a bank loan in the last year?		
Yes.	23	24
No.	71	76
Would your firm's demand for bank loans increase with lower interest rates?		
Yes.	61	65
No.	33	35
Would your firm's demand for bank loans increase with lower collateral requirements?		
Yes.	60	64
No.	34	36
Would your firm's demand for bank loans increase with lower interest rates? (For firms that did not apply for bank loan in the last three years)		
Yes.	38	54
No.	33	46
Would your firm's demand for bank loans increase with lower collateral requirements? (For firms that did not apply for bank loan in the last three years)		
Yes.	37	52
No.	34	48
Was your firm in a position not to apply for a bank loan even if it needed bank financing in the last three years with the idea that the application would be rejected?		
Yes.	8	9
No.	86	91
Was your firm in a position not to apply for a bank loan even if it needed bank financing in the last three years with the idea that the application would be rejected? (For firms that did not apply for bank loan in the last three years)		
Yes.	3	4
No.	68	96

Source: Own dataset

When participants were asked whether their firm applied for a bank credit in the last three years, 35% of them responded positively. 65% of the respondents say that they have not applied for a credit. Among the participants, 24% of them said that their firm applied for a bank loan in the last year. The majority of the firms (76%) did not apply for bank financing during this period.

65% of the respondents declared that their firm's demand for bank loans would increase with lower interest rates. 35% of them reported that a reduction in interest rates would not change their firm's demand for bank loans. 64% of the respondents declared that their firm's demand for bank loans would increase with a reduction in collateral requirements. 36% of them reported that lower collateral requirements would not increase their firm's demand for bank financing. These findings show us that interest rates have a stronger effect than collateral requirements on the demand of hospitality firms for bank loans. When we look at the responses of the managers of the firms that did not apply for bank loans in the last three years, we see that 54% of them said that their firm's demand for bank financing would increase with lower interest rates. 46% of the respondents declared that lower interest rates would not increase their demand for bank loans. 52% of the same group of managers declared that lower collateral requirements would positively affect their firm's demand for bank financing. 48% of them said that their demand for bank financing would not increase with a reduction in collateral requirements. These results show that firms that did not prefer to apply for bank credit in the last three years have a lower tendency to have a higher demand for bank loans with lower interest rates and lower collateral requirements than firms that applied for bank credit. This finding can be considered as a signal that high interest rates and high collateral requirements is not the only reason for low demand for bank loans among small hospitality businesses.

When asked whether their firms were in a position not to apply for a bank loan even if they needed bank financing in the last three years with the idea that the application would be rejected, only 9% of the respondents positively. Moreover, only 4% of the managers of the firms that did not apply for credit in the last three years responded positively to this question. These findings signal that small hospitality businesses that did not apply for bank loans are not discouraged from searching for bank financing.

Chakravarty and Xiang (2013) argue that young and small firms may be reluctant to apply for bank financing because they do not have strong ties with banks. Therefore, the tendency of firms to apply for bank loans may change with their age. We analyze whether firms whose managers gave positive and negative answers to our dichotomous questions differ in terms of age with t test. The analysis is not done for the question that asks whether the firm was in a position not to apply for a bank loan even if it needed bank financing because of the low number of managers that responded positively to the question. Table 3 gives the group statistics that include the means, standard deviations and medians of age for each group.

We see that firms that applied for a bank loan in the last three years and in the last year are younger firms with mean ages of 7.42 and 8.35 respectively. Firms that did not apply for bank financing in the last three years and in the last year have mean ages of 11.13 and 10.31.

Firms whose demand for bank loans would increase with lower interest rates and lower collateral requirements are also younger firms with mean ages of 7.51 and 7.37 respectively.

Table-3. Group statistics for firm age

Did your firm apply for a bank loan in the last three years?					
Yes.			No.		
Mean	Standard Deviation	Median	Mean	Standard Deviation	Median
7.42	6.32	6.00	11.13	9.81	8.00
Did your firm apply for a bank loan in the last year?					
Yes.			No.		
Mean	Standard Deviation	Median	Mean	Standard Deviation	Median
8.35	7.02	6.00	10.31	9.40	7.00
Would your firm's demand for bank loans increase with lower interest rates?					
Yes.			No.		
Mean	Standard Deviation	Median	Mean	Standard Deviation	Median
7.51	5.79	6.00	14.48	11.72	12.00
Would your firm's demand for bank loans increase with lower collateral requirements?					
Yes.			No.		
Mean	Standard Deviation	Median	Mean	Standard Deviation	Median
7.37	5.75	6.00	14.50	11.54	12.50

Source: Own dataset

Firms whose demand for bank financing would not change by lower interest rates and lower collateral requirements have mean ages of 14.48 and 14.50 respectively.
Table 4 presents the results of the t tests.

Table-4. T tests for equality of group means

	T value	**Sig. Level**
Did your firm apply for a bank loan in the last three years? (Yes, No)	-1.37	0.183
Did your firm apply for a bank loan in the last year? (Yes, No)	-0.57	0.574
Would your firm's demand for bank loans increase with lower interest rates? (Yes, No)	-2.91	0.008
Would your firm's demand for bank loans increase with lower collateral requirements? (Yes, No)	-2.89	0.008

Source: Own dataset

These tests show that there is not a statistically significant difference between firms that applied for a bank loan in the last three years and in the last year and firms that did not apply for a bank loan during the same time periods in terms of age. At 0.01 level of significance, t tests show that firms whose demand for bank loans would increase with lower interest rates and lower collateral requirements are younger than firms whose demand for bank loans would not be affected by a decrease in interest rates and collateral requirements.

4. CONCLUSION

The focus of this study is assessing the demand of small hospitality businesses for bank financing. The study is confined to a sample of 94 small hotel and restaurant businesses who were drawn from six cities of Turkey where the highest population of small and medium sized enterprises operate. We found that the majority of the businesses did not apply for a bank loan in the last three years and in the last year. The majority of the owner/managers declared that their firm's demand for bank loans would increase with lower interest rates and lower collateral requirements. Firms that did not make a loan application in the last three years and in the last year have a lower propensity to have a higher demand for bank financing with a decrease in interest rates and collateral requirements than firms that made a loan application in the same time periods. This finding signals that the levels of interest rates and collateral requirements are not the only factors that create low demand for bank loans by small hospitality businesses. Nearly all of the owners/managers declared that their firms were not in a position not to apply for a bank loan in the last three years with the fear of rejection even if they needed bank financing. We reach the same finding for the firms that have not applied for bank financing in the last three years and in the last year. Therefore, we can say that discouragement is not the reason for not applying for a bank loan. We also find that the tendency of firms to apply for bank financing in the last three years and in the last year do not change with age. On the other hand, small hotel and restaurant businesses that would have a higher demand for bank loans if there was a reduction in interest rates and collateral requirements were younger firms.

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