INFLUENCE OF FINANCING BY FACTORING ON COMPANY'S LIQUIDITY IN BOSNIA AND HERZEGOVINA

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ABSTRACT

The economic crisis, which did not leave Bosnia and Herzegovina (BiH) unaffected, and the increasingly present problems with the collection of accounts receivable made the companies in BiH turn to factoring, a modern financial tool that provides liquidity. Very frequently, slow collection of claims may be a problem, especially for small and medium-sized enterprises that have difficulties in accessing short-term loans and in providing collateral for loans and often face the problems of financing liquid capital. Due to all this, factoring is a high-quality instrument for "extinguishing" illiquidity as by cession of claims the company obtains cash in a very short period. This paper aims to establish the importance of factoring as a modern financing tool in keeping liquidity, competitiveness, and export capacities of small and medium-sized enterprises in BiH and to indicate advantages and disadvantages of factoring as a modern form of financing compared to traditional financing forms. Financing by factoring is directly related to the subjects in factoring activities, factoring item as well as to the costs, elements, and risks of factoring. It is therefore very important to accentuate the differences between financing by factoring and by short-term loans.

Keywords: small/medium-sized company, short-term business financing

JEL Classification: G23, G39

INTRODUCTION

The collection of accounts receivable has been a constant problem faced by companies in the last few years. It is even more difficult nowadays due to increased general illiquidity in the system. One of the ways that might be used in solving illiquidity problems is factoring. Factoring is a set of practical and useful financial services which a company may use to ensure against weak/poor accounts receivable. It is particularly important to mention that factoring has become the topic of research for many authors in the field of finance due to its interesting effects on enterprises. The most interesting one is the improvement of liquidity and provision of funds not for its own credit liquidity but for credit liquidity of the buyer as well as for competitiveness on the market due to granting more favorable credit terms to the buyers. Factoring enables faster circulation of resources and the liquidity of real economy.

Liquidity can be defined as financial solvency of the company, it can be expressed as the liquidity of asset as well as corporate liquidity or solvency (Ivanovic, 1997, 125). On stock market, liquidity can be measured by observing the gap between the buying and selling price (Bogdan, Baresa and Ivanovic, 2010, 45). Other authors (Uyemura, Van Deventer, *etc.*) define liquidity as ability to collect funds at no extra costs within a reasonable time (Kallberg and Parkinson, 1993, 234). The importance of maintaining liquidity and solvency in the economic crisis is reflected in the fact that every financial crisis begins at the time of termination of payment obligations (Zelenika and Srdoc, 2011, 173).

The circulation of resources may be speeded up primarily by the introduction of factoring as a new form of financing. However, the factoring market in BiH is not developed and the competition between the factoring institutions is rather small. This basically means that factoring in BiH is at its beginning

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but with the potential of bringing significant benefits to the business community in BiH and to better business environment. If the banks in BiH were able to provide appropriate credit lines for the private sector, including short-term credit lines, the need for factoring would probably be small. Factoring as a form of financing an enterprise is an alternative to the traditional sources of financing such as loans. Besides, factoring companies all over the world offer various types and forms of factoring as well as various factoring services (financing, accounts receivable book-keeping, collecting payments, noticing debtors, *etc.*). When a company selects the form of financing, whether it needs to decide between factoring and any other source of financing or between several different types of factoring, it needs to look at all the advantages and disadvantages offered by a specific option. However, advantages and disadvantages are not the only things the enterprise needs to take care of as the availability of certain sources of financing on the specific market is equally important.

1. THEORETICAL FRAMEWORK OF FACTORING

Today, factoring is a significant form of financing, of both large corporations and small and medium-sized enterprises, based on buying the seller's accounts receivable on the basis of goods sold to the buyer. The essence of factoring is the payment of client's accounts receivable from a third party, collection of such accounts receivable from a third party and other related services in commercial and finance trade for a fee (Trifkovic and Omanovic, 2001, 359). Factoring is "an example of a technology that is particularly promising in the absence of developed institutions, as it relies on them to a lesser extent" (Beck and Demirguc-Kunt, 2006, 2942).

Company can take advantage of its short-term accounts receivable to sell them to the factor. The factor can be the specialized financial institution or company or a bank which has a separate department, or specialized factoring subsidiary or classic institution of factor, factoring company, factoring-factor-house. For example, all larger banks in Croatia offer factoring service (Pesic, 2011, 432).

The factors purchase short-term accounts receivable with a certain maturity, the factor pays to client for example 70-90% of the invoice value, less the factoring fee. The remaining unpaid amount of the invoice is paid after the borrower solved the obligations, minus a certain percentage of fees (for services, credit risk, and interest from the moment of repurchase until the time of charging the receivables). Usual deadlines of short-term financing through factoring in business practice are between 30 and 120 days, depending on the quality of receivables. It is also possible to repurchase maturities of 180 days or more. The size of commission and the amount that will be paid immediately to clients depend on the accounts receivable, its quality, business reputation of the debtor, *etc*. Except payment of accounts receivable, the factor can charge receivables, credit control, and administrative tasks of monitoring invoices for client, provide protection against the risk of non-payment and monitor the solvency and credit worthiness of business partners. For risk overtaking, factor receives a fee from vendor receivables ,which is generally a percentage of the value of receivables. However, the factors usually check the recoverability of accounts receivable before it is accepted (Mishkin and Eakins, 2005, 556).

Factoring transaction usually includes three parties: the buyer of goods, the seller of goods, and the factor, except in the cases of international factoring which include the buyer, the seller and the import or export factors. Hence, there are two basic types of factoring – domestic and international.

Domestic factoring includes three parties:[1]

1. The factor is typically represented by a factoring company, although this function may be performed by banks' special organizational sectors, when allowed by the jurisdiction. The contemporary factor, apart from buying

up the actual accounts receivable from the client, performs two additional functions – it grants the client a contractor loan to be used for planning and contracting the credit sale of its goods with buyers and it services other companies' securities and overdue securities as well as their collection through the institutions of the system. The factor charges the commission for its services in the range of 2-4% above the inter-bank prime rate. This provision covers the risk of collection to which the factor was exposed as well as the interest rate for credit financing the client from the moment of buying up accounts receivable to the payment. While providing complete factoring services, the factor may have other costs (for example interest rates on unpaid accounts receivable over the fixed days or various commissions – for the pre-contract activities, preparation of loan, assessment of interest rates, etc). The factor settles and defines these specific costs by the factoring contract.

2. The second party in factoring is the client. The clients is obliged to cede/transfer its accounts receivable to the factor based on the concluded contract but also to regularly deliver the factor the copies of invoices and receipts on the delivered goods. The client is also obliged to make the invoices so as they be fully detailed in terms of the data relevant for the buyer – the amount to be paid, terms and dynamics of payment as well as the clear note that the payments is to be made through the factor.

3. The third party of factoring is the buyer whose main responsibility is to pay for the purchased goods in accordance to the sales contract concluded with the seller (the client). The buyer is primarily interested in the terms of payment (possibilities for credit financing) rather than if the client (the seller) or the factor provides the loan. When the buyer settles the accounts, financing by the factoring model is closed.

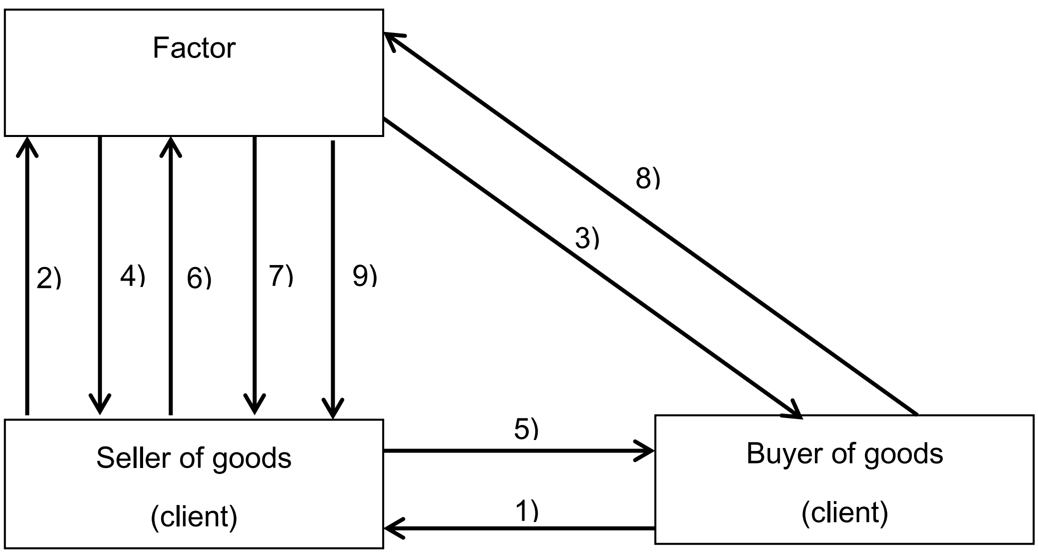

Figure 1. Clients in domestic and international factoring
Source: http://www.cbbh.ba/press/edukacija/676, Accessed: 13/04/2014

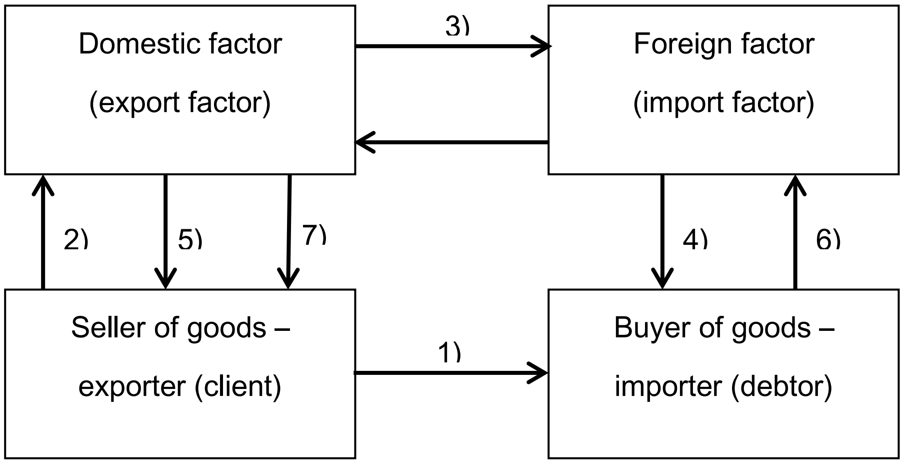

Figure 2. Clients in international factoring
Source: http://www.cbbh.ba/press/edukacija/676, Accessed: 13/04/2014

International factoring business, apart from the abovementioned three parties (the factor, the client, and the buyer) includes the fourth party, the import or export factor, as explained in detail in Figures 1 and 2.

The factor buys the accounts receivable for a fee before the expiry date of payment, takes over the activities of collection, warnings, account transactions, and the risk of collection of receivables (Markovic, 2000, 58). At a time when it charges more than the discounted price which he paid for the purchased receivables, the factor profits (Ivanovic, 1997, 261).

When a company faces the financing problem, it can use various alternatives to solve it. One of the alternatives is credit financing and another (available to shareholding companies only) is the security issue, while one of the specific forms for overcoming the financing problems is factoring. A company may contact the factoring institution and offer its accounts receivable, still not due in exchange for cash. After analyzing buyer's credit worthiness, the factoring company makes the decision on whether to enter a factoring business deal with a company – a client, or not.

In general, banks grant short-term loans based on company's ability to pay it, as specified by cash flow and collateral. A company needs to satisfy bank's criteria:[2]

- Stable and strong company (3-5 years minimum);
- Positive cash flow (2-3 years minimum);
- Good financial results in the past;
- Collateral at least equal to the amount of loan (usually fixed assets not subject to other rights of retention, sometimes personal assets);
- Good, clean credit history.

The criteria may also include:[3]

- Long process of loan application and payment;
- Extensive accompanying documents;
- Fixed amount of loan and maturity date;
- Re-application for additional resources (additional collateral);
- Bank as a sole provider of financial services to a company.

Table 1. Comparison of traditional short-term credits and factoring

Short-term banking credits	Factoring
Dependence on collateral in the form of immovable property Supported by financial reports Guarantee contract with definite time line for payment Little significance of short-term property as the support to credit service Fixed amount of credit that may not satisfy the business needs No additional services provided Credit payment may be challenged Little involvement of the bank from the moment of granting the credit to the payment	Short-term accounts receivable serve as collateral Not dependent on financial reports Factoring contract Only short-term property is relevant in providing the credit service Very flexible with the entire credit line set as revolving Provides additional services with credit financing Revolving credit Provides the option for "controlling" credit activities. Demands active supervision of the program. Higher cost price due to additional services provided

Source: Rovcanin, Omerbegovic and Halilbasic, 2005, 17

The biggest problem with the banking financing lies in the fact that once a company reaches its maximum credit limit it has very little maneuvering space with slow cash flow and without additional collateral. The factors usually make their decision on providing cash to a company on the basis of clients' credit worthiness and the amount of accounts receivables. This way, the factor may provide financing even if a company is new or with poor credit history or slow cash flow. The factor is more flexible than the bank when considering increased sale as every account is assessed individually.

General characteristics of factoring include:[4]

- Granting based on the quality of company's clients rather than the company alone;
- Short application process;
- Short granting process;
- Cash within up to 48 hours;
- Accounts receivable used as collateral, leaving fixed assets free for banking credit insurance;
- Factoring credit line increases parallel with the company (factoring "loan" is not limited);
- Start-up companies are acceptable (strong business relations needed);
- Simple and short procedures for changes or expansion of credit terms;
- Provision of non-financial services including accounts receivable book-keeping, collecting debts/accounts receivable and protection against credit risk (default obligations).

2. FACTORING ON GLOBAL LEVEL (OR HOW DOES THE IMPACT OF FACTORING DIFFER BY COUNTRY?)

Factoring is used in both developed and developing countries. In 2004, the total worldwide factoring volume was over USD 860 billion, an impressive growth rate of 88% since 1998 (Klapper, 2006, 3112).

Bakker, Klapper and Udell (2004, 14) analyzed the volume of factoring by country and region from 1998-2003. The top three countries in 2003 were the United Kingdom (EUR 160 billion), Italy (EUR 132 billion), and the United States (EUR 86 billion). Growth in factoring was strongest in Australasia and Europe but evident in all regions. Not surprisingly, growth in factoring was extraordinarily strong in Eastern Europe (the EU 8 plus Romania – growing by 434% in aggregate, though from a very small base.

Factoring has nowadays become an essential model of financing of turnover. The data of the International Factors Group Belgium (IFG) indicate that in 2013 the scope of factoring businesses in the world amounted to EUR 2,181,403 million with 4.49% share compared to the total GDP (International Factors Group, Global Industry Activity Report, 2013). European markets use the benefits of factoring to a significant extent and in 2014 the following results were achieved (exemplified by the countries with the most developed factoring programs and the neighboring countries).

Also, it is a fact that European market is becoming more and more agile regarding trade finance services used by the small/medium-sized companies (SMEs) operating in Europe. However, only a small percentage of SMEs in Europe actually use factoring and invoice discounting in order to alleviate their cash-flow difficulties (Guiliano *et al.*, 2009, 77).

Table 2. Factoring business in the EU in 2014 (in EUR million)

State	Volume of factoring businesses	% GDP	Market share
UK	350,622	15.81	25.52
France	226,598	10.58	16.49
Germany	189,880	6.54	13.82
Italy	183,004	11.32	13.32
Croatia	2,498	5.80	0.18
Slovenia	536	1.44	0.04
The EU	1,373,774	9.87	100.00

Source: Ristic and Ricka, 2015, 67

However, in legal theory and laws of some countries there is no unified stance in view of terminological, conceptual, and legal determination of a factoring contract (Brkic, 2011, 177).

On international plan, up to the rendering of the UNIDROIT Convention (Institute for the Unification of Private Law), factoring operation was organized only according to the rules of the common law and autonomous trading law. After the conducted procedure of international unification which was carried out under UNIDROIT, in1988 in Ottawa a Convention on international factoring was rendered. Convention came into force in 1995, defining the contract on factoring as the contract on the basis of which the deliverer is obliged to transfer on the factor the existing or the future claims from the contract on the sale of goods (service) rendering between the deliverer and his buyer, i.e. the user of the services (Spasic, Bejatovic and Dukic-Mijatovic, 2012, 200).

It is obvious that the factoring business is yet to take hold in the region which includes BiH. The institutional framework has mainly been prepared and, upon its establishment through the channels of official institutions, it may serve as a firm ground for the creation of new financial institutions that might introduce trade in accounts receivables into practice.

3. POTENTIALS FOR DEVELOPMENT OF FACTORING IN BIH AND THE NEIGHBORING COUNTRIES

Economic feasibility of factoring introduction to the territory of BiH is based on the objective estimates included in the scope of trade and business terms in the observed region. The analyzed territory is limited to BiH and the neighboring countries. Traditional economic, cultural and social contacts determine important trade relations that serve as the basis for the definition of a possible scope of factoring use. The limitation of the observed region was made so as to avoid linking efficiency and the possibility for factoring use with the existence of the traditional trade relations.

All the countries of the region and in the immediate surroundings of BiH (Serbia, Croatia, and Montenegro), face significant problems of liquidity, GDP stagnation, public finance illiquidity, and slow jurisdiction. The European payment index 2014 indicates the average late payment for 2014 as follows: the public sector 58 days, the business sector 47 days, and the consumer sector 34 days (Intrum justitia, European payment index, 2014, 8).

Table 3. Average term of contracted payment and late payment (in days)

Country	Public sector		Business sector		Customer sector	
	Average contracted payment/average late payment		Average contracted payment/average late payment		Average contracted payment/average late payment	
Serbia	20	12	24	16	26	20
Croatia	30	20	30	24	30	32
BiH	15	15	20	15	20	21

Source: Intrum justitia, European payment index, 2014, 15[5]
Note: The data on Montenegro not available

The data for all three sectors in the observed countries indicate that there is a significant deviation in the average payment terms, which makes manufacture in the business sector particularly difficult. The extension of payment terms, which almost doubles the contracted days of payment, limits reproduction, reduces turnover coefficient, and, through capital price, significantly reduces profit effect of business. However, the positive fact is that the observed countries made factoring laws, which are in the stage of creation on the same basis and will not constitute an obstacle for both domestic and foreign factoring (Istuk and Labus, 2015). In the Federation of BiH the factoring law was finally adopted on February 24, 2016.[6] This is the first law of this kind not only in the Federation but in BiH too.

The third factor important for the introduction of factoring on the market of the region lies in the existing structure of the financial system. The financial systems of the observed countries are characterized as "highly bank-centered, meaning that bank loans are the primary source of financing companies" (Miletic and Buljan Barbaca, 2015, 743). On average, above 80% of the financial systems of these countries are made of banks' financial potentials. In addition, the regional market includes the banking systems that developed business networks in the region, which serves as the solid ground for the development of factor network on the regional markets through their daughter companies. The law status sets banks as a possible format for the very inception of this type of business as laws on banks do not stipulate any obstacles to factoring business. The problem is in the risky business philosophy – banks are oriented towards credit users while factoring companies turn to both credit users and their clients. As the founders of factoring companies, banks have certain limitations. Law on banks limit banks' investment into other companies, including factoring companies, but the limitation refers to the equity capital, while the scope of factoring company in not subject to limitations as in that way, when compared to banks, placement concentration can be limited (Ristic and Ricka, 2015, 69).

Traditionally over-liquid banks on the territory of BiH with the bank centric system in which practically all transactions are made through the banks will be able to replace credit financing by buying up the assets or accounts receivable for the contracted and executed business activities. As the banks "live" with their clients, this will facilitate the assessment of clients' solvency and their businesses worthiness. On December 31, 2014, the banks in BiH had BAM 6.1 billion of the liquid assets as, due to the unfavorable market situation, solvent clients are difficult to find (The Central Bank of BiH, Statistics).

4. RESEARCH METHODOLOGY

The empirical part of the research included the data collection by means of a questionnaire. The questionnaire comprised an equal number of open-ended and closed-ended questions while the closed-ended questions included scale and intensity response options. The questionnaire included 21 questions grouped in 5 sections. The companies were non-randomly selected and the selection criteria covered the companies that use or have used the services of factoring as short-term financing in their business. The main group is made of all the companies that use factoring. The total number of such companies in BiH is 130.

The research was conducted in the period August 2014 - September 2015. The participants were rather passive at first, but the problem was solved by direct communication with companies' employees who were introduced to the importance of the research for a wider community. Finally, a total of 30 companies agreed to fill in the questionnaires, which gave the response rate of 23.08% (30/130).

5. RESULTS AND DISCUSSION

The research included 30 companies on the territory of BiH, coming from different sectors with different numbers of employees and annual income. The goal was to establish in what way the structure and general characteristics of a company affect the usage of factoring and in which companies, depending on the number of employees, annual income and main sector, factoring is used the most. The research results revealed the data which are presented in the remaining section with the appropriate tables and charts.

Graphically presented, company structure by their main sectors is as follows:

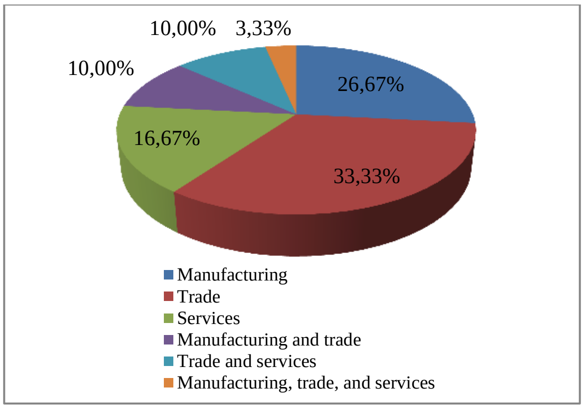

Figure 3. Company structure by main sectors
Source: Authors' research

The results showed in Figure 3 clearly indicate that the largest share of companies that use factoring as the source of financing is taken by trade companies (33.33%), then come the companies in the manufacturing sector (26.67%) while the companies in the combined sectors (manufacturing, trade, and services) have the lowest share (3.33%).

Based on the research results, we determined the influence of financing by factoring on companies' liquidity by sectors, as showed in Table 2.

Table 2. Influence of financing by factoring on companies' liquidity by sectors

Sector	Improved liquidity		Σ
	Yes	No	
Manufacturing	8		8
Trade	8		8
Service	4	1	5
Manufacturing and trade	5		5
Trade and service	3		3
Manufacturing, trade, and service	1		1
Σ	29	1	30
$\chi^2=0.92$ df=1 P=0.05			

Source: Authors' research

Based on the research results and the calculated *chi* square test, the conclusion was made that there is no statistically significant difference in participants' statements on improved liquidity. Out of 30 participants, 29 gave affirmative answers stating that factoring improved liquidity while a negative answer was given in one case only (service company). Factoring as a source of financing is mostly present and used in trade companies. In terms of improved liquidity, trade and manufacturing companies report the improvement the most and then come the companies functioning in two or more sectors. This was proved by the calculation of the *chi* square test and contingency table, and as there were only two possible answers "Yes" and "No", the degree of freedom is 1. The values of *chi* square test diverging from the expected values to the extent where their random appearance is possible in 1% or 5% of the cases can be presumed such deviation not to be considered random. The contingency table data shows that such value is 3.84 while the *chi* square test value is 0.92.

It can thus be concluded that factoring as a source of financing is most favorable for trade and manufacturing sectors and then service sector while combined sectors come last.

Graphically presented, company structure by employee number is as follows:

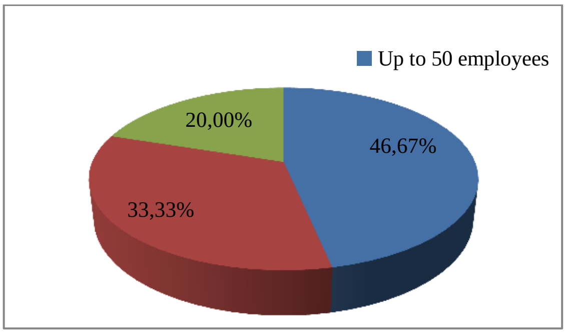

Figure 4. Company structure by employee number
Source: Authors' research

In terms of employee number, the research results presented in Figure 4 show that the most represented companies that use factoring as a source of financing are those with up to 50 employees (46.67%), followed by those with 50-250 employees (33.33%). The companies with more than 250 employees take the lowest share (20.00%).

It can thus be concluded that factoring as a source of financing is most often used in the companies with up to 50 employees, i.e. small companies. As previously mentioned, factoring as a source of financing is most favorable for small and medium enterprises.

Based on the research results, we determined the influence of financing by factoring on companies' liquidity by employee number, as showed in Table 3.

Table 3. Influence of financing by factoring on companies' liquidity by employee number

Employee number	Improved liquidity		Σ
	Yes	No	
Up to 50 employees	13	1	14
50 - 250 employees	10		10
More than 250 employees	6		6
Σ	29	1	30
$\chi^2=0.92$ df=1 P=0.05			

Source: Authors' research

Based on the research results and the calculated *chi* square test, the conclusion was made that there is no statistically significant difference in participants' statements on improved liquidity. Out of 30 participants, 29 gave affirmative answers stating that factoring improved liquidity while a negative answer was given in one case only (company with up to 50 employees). Factoring as a source of financing is mostly present and used in small companies, then come medium-sized companies and large companies at the end. This was proved by the calculation of the *chi* square test and contingency table, and as there were only two possible answers "Yes" and "No", the degree of freedom is 1. The values of *chi* square test diverging from the expected values to the extent where their random appearance is possible in 1% or 5% of the cases can be presumed such deviation not to be considered random. The contingency table data shows that such value is 3.84 while the *chi* square test value is 0.92.

Graphically presented, company structure by annual income is as follows:

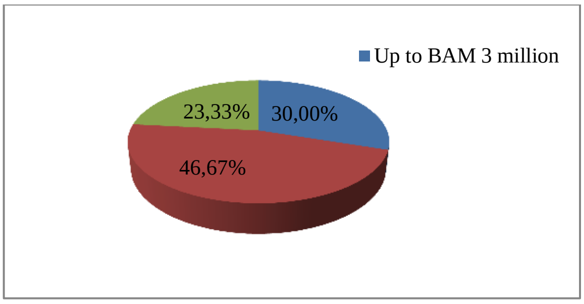

Figure 5. Company structure by annual income
Source: Authors' research

In terms of annual income, the research results presented in Figure 5 showed that the participants singled out as dominant the companies with the annual income of BAM 3-30 million (46.67%). They are followed by the companies with the annual income of up to BAM 3 million (30.00%), while the companies with the annual income of more than BAM 30 million are least represented.

Based on the research results, we determined the influence of financing by factoring on companies' liquidity by annual income, as showed in Table 4.

Table 4. Influence of financing by factoring on companies' liquidity by annual income

Total annual income (in BAM)	Improved liquidity		Σ
	Yes	No	
Up to 3 million	8	1	9
3 – 30 million	14		14
More than 30 million	7		7
Σ	29	1	30
χ^2=0.92 df=1 P=0.05			

Source: Authors' research

Based on the research results and the calculated *chi* square test, the conclusion was made that there is no statistically significant difference in participants' statements on improved liquidity. Out of 30 participants, 29 gave affirmative answers stating that factoring improved liquidity while a negative answer was given in one case only (company with the annual income up to 3 million). Factoring as a source of financing is mostly present and used in the companies with annual income of 3 to 30 million. This was proved by the calculation of the *chi* square test and contingency table, and as there were only two possible answers "Yes" and "No", the degree of freedom is 1. The values of *chi* square test diverging from the expected values to the extent where their random appearance is possible in 1% or 5% of the cases can be presumed such deviation not to be considered random. The contingency table data shows that such value is 3.84 while the *chi* square test value is 0.92.

The research into the main characteristics (features) of using factoring services is primarily aimed at defining the motives for using factoring services as well as advantages and disadvantages of using factoring as a source of company's financing.

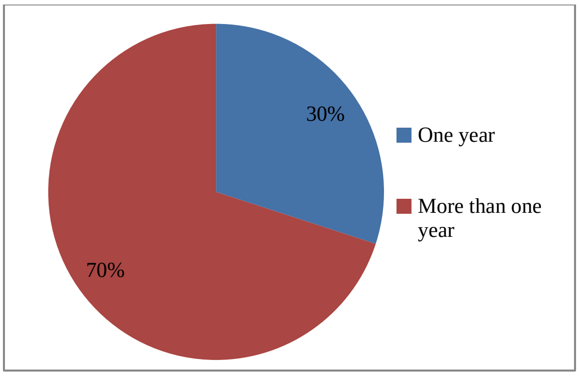

Figure 6. Company structure by the length of factoring usage
Source: Authors' research

The research results presented in Figure 6 clearly indicate that the largest number of participants stated that the period of factoring usage is over a year. This leads to the conclusion that factoring as a source of financing is becoming a regular way of financing in the companies that provide financial resources in that way. This supports the statement that companies use factoring in longer periods, which means that there is a practice of solving financial problems in this way. In other words, factoring is a good financial instrument for overcoming the "gap" between the sale of goods and the collection of accounts receivable.

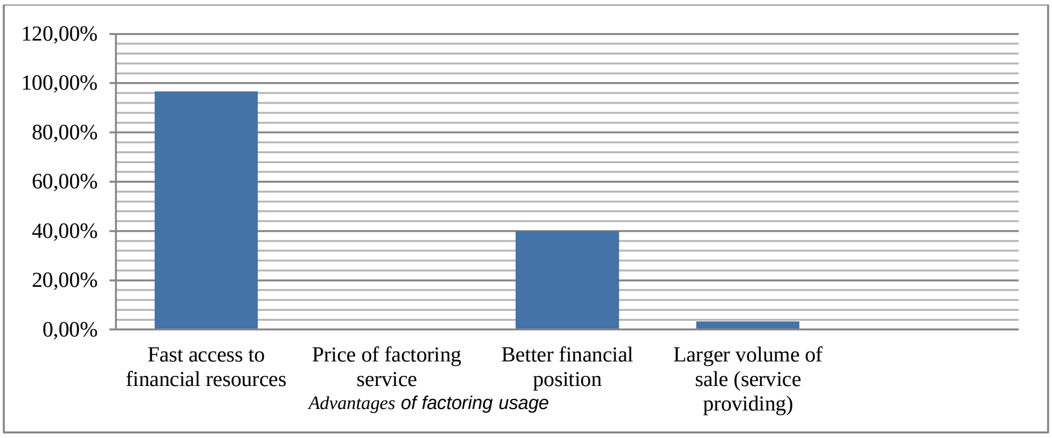

Figure 7. Company structure by advantages of factoring usage
Source: Authors' research

The research results presented in Figure 7 clearly indicate that the largest share is reserved for the statement that the main advantage of factoring is fast access to financial resources, followed by better financial position, and larger volume of sale or service providing.

Graphically presented, company structure by disadvantages of factoring usage is as follows:

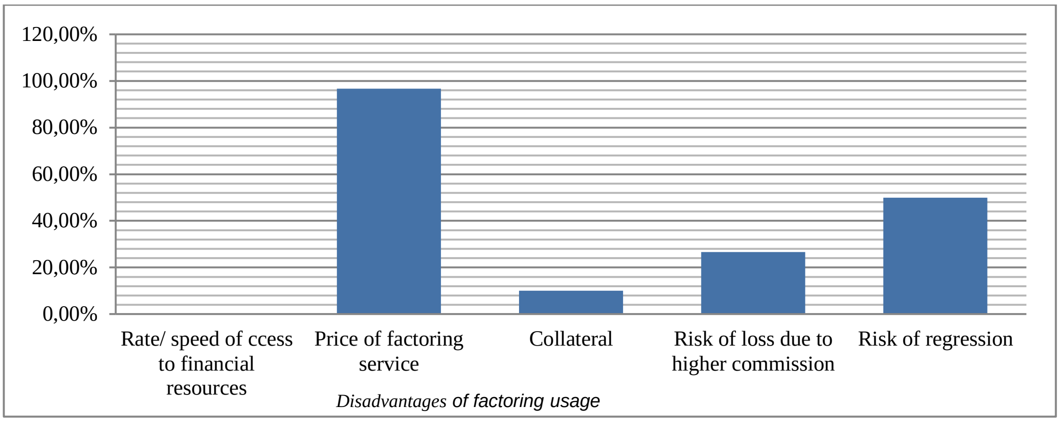

Figure 8. Company structure by disadvantages of factoring usage
Source: Authors' research

Figure 8 shows the number and structure of companies regarding the disadvantages of factoring usage. Out of 30 participants that gave statements related to various answers offered, 26 said that the price is the main disadvantage of factoring as a source of financing, 15 circled the risk of regression as one of the disadvantages while only few opted for the risk of loss due to higher provisions and collateral. None of the participants claimed the disadvantage of factoring to be the speed/rate of access to financial resources, which was noticed during the analysis of the main advantages of factoring.

Therefore, it is beyond doubt concluded that the most represented attitude is that the main disadvantage of factoring usage is the price of factoring service followed by the risk of regression. Hence, factoring is a relatively costly source of financing when compared to other short-term sources of financing along with the fact that there is a risk of regression.

Table 5 shows the research results related to participants' attitudes towards factoring as a source of financing in comparison to short-term credits.

Table 5. Participants' attitudes on factoring as a source of financing

	Yes		No		P
	f	%	f	%	
It is easier to provide collateral for factoring than short-term credit	22	73.33	8	26.67	0.0003
There is risk in factoring business	24	80.00	6	20.00	0.0000
Factoring is sufficiently developed (established) for our conditions	25	83.33	5	16.67	0.0000
Law on factoring needs to be adopted	22	73.33	8	26.67	0.0003

Source: Authors' research

Since for all the aspects of factoring usage $p<0.05$, it is concluded that there is a statistically significant difference in the percentage of agreement and disagreement with the statements. In other words, the statement is accepted that factoring is the most attractive instrument of financing precisely because the largest share of the participants believes that it is easier to provide collateral for factoring than short-term credit. In addition, most participants consider that factoring is sufficiently developed for our conditions, law on factoring needs to be adopted, and that there is a risk of regression in factoring. This basically means that regardless of the risk of regression, the participants readily make factoring businesses as they are easier ways for them to obtain cash and improve liquidity.

The remaining part of the article brings the research results on the influence of financing by factoring on the improvement or deterioration of company's position. Based on the data presented in Figure 9 it is evident that out of 30 participants 29 (96.67%) stated that the main indicator of company's position improvement is better liquidity, which means that company really increases its liquidity by using factoring services. Eight participants opted for higher competitiveness (26.67%) which, being lower than 50%, leads to the conclusion that by using factoring companies do not increase their competitiveness.

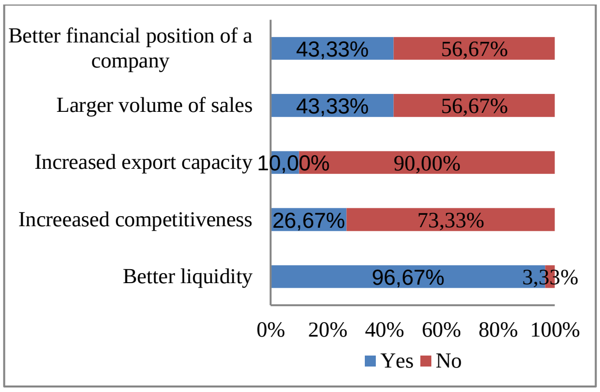

Figure 9. Main indicators of company's position improvement due to factoring usage
Source: Authors' research

Based on the resulted showed in the following figure, out of 30 participants, 19 (63.33%) stated that the main indicator of company's position deterioration is cost increase. It was already concluded that factoring is a "costly" source of financing when compared to other short-term sources such as short-term credit.

Of course, the cost of factoring reduces the profits of each individual transaction or sound management of trade accounts receivable through a shortening of the period of collection which increases turnover ratio whereby increased turnover ratio contributes to the realization of large scale of the total number of units to be supplied and thus increases the sum total profit (Ricka and Alihodzic, 2016, 305).

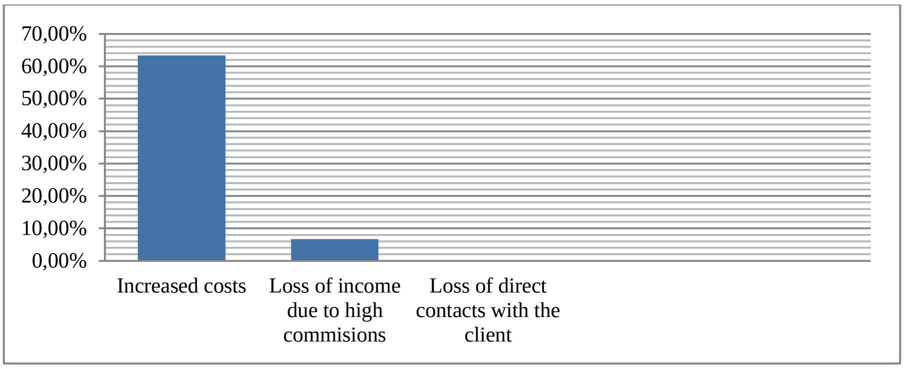

Figure 10. Main indicators of company's position deterioration due to factoring usage
Source: Authors' research

Regarding the research into whether the companies use some other sources of short-term financing but factoring, 22 participants (73.33%) stated that besides factoring they use bank credits while 19 of them (63.33%) stated that factoring is different (better or worse) from some other source of financing.

CONCLUSIONS AND RECOMMENDATIONS

The research showed that factoring is sufficiently established for the business conditions in BiH but that the law on factoring needs to be not only adopted but fully implemented too. It is a fact that in many EU countries without direct factoring regulations in the form of a special law, factoring business is as successful as in the countries which have such regulations. This is enough to conclude that explicit legal regulations are not always necessary for a financial business to function in a country.

The general problem of factoring as a financial business is that it lacks sufficient market recognition, even in the EU countries where it is traditionally more developed. What is also needed is the harmonization of legal regulations relevant for factoring activities at the level of all EU countries, so as to increase the volume of international factoring operations.

Under modern business conditions, companies face a series of specific problems that impede successful business realization. Many difficulties that come with modern business activities are primarily financial in nature. The crucial problem related to company's financing is generally the issue of liquidity. Companies attempt to overcome these problems by introducing modern, specific methods, techniques, and ways of financing. One of them is certainly factoring business as a modern product aimed at improved liquidity by selling short-term accounts receivable. Factoring might soon become a tool necessary for economy's functioning, which means that traditional sources of financing, which include short-term credits, are slowly becoming our past. Modern ways of financing are becoming more and more important.

The research results lead to the conclusion that factoring is by no means a better choice for the companies struggling with liquidity and wanting to overcome this problem safely. They can achieve this by using factoring while overcoming the liquidity problem may lead to a better financial position of a company as well as to better export capacity for the export-oriented companies. It is interesting to mention that companies mainly use factoring for over a year, which means that factoring contracts are renewed regardless of high prices of factoring businesses. Factoring is certainly an interesting way of financing current transactions. Unlike other types of borrowing financial resources where debt increases debtor's liabilities, in factoring financing is primarily made on the basis of assets (a part of assets related to accounts receivable from buyers). This does not increase debt, it keeps credit worthiness and improves liquidity, which is primarily in the focus of small and medium-sized enterprises.

It can be said that the results of this research contribute to the analysis and understanding of factoring businesses and show in which way financing by factoring influences liquidity, competitiveness, and export capacity of companies. However, this research is only a preliminary step towards research into factoring as a modern way of financing as compared to short-term credits as traditional ways of financing. The recommendations for further research may be summed up as follows:

- To establish if by using factoring companies reduce their own balance of accounts as factors take over the collection of accounts receivable, thus improving their credit worthiness without exceeding the bank limit.
- To examine the trends of factoring business development in the EU and compare them with the trends of factoring business development in BiH and the Western Balkans.

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