

## **Role of Leasing in Financing Business Activity of Enterprises in Poland**

**Abstract:** The development of enterprises requires permanent investment and searching for sources of effective support for business activity. Therefore, when entrepreneurs create new development opportunities, they look for appropriate sources of support for the activities of enterprises. In the opinion of entrepreneurs, such an attractive source of financial support is leasing. Due to the benefits of leasing business activities, more and more business entities in Poland have decided to use this form of obtaining capital. The aim of the study is an attempt to define the significance and role of leasing in financing economic activity of enterprises in Poland. Firstly, based on the literature review, the essence, types, advantages and disadvantages of leasing were presented, and an attempt was made to evaluate the current market of leasing services in Poland and the prospects for its development. Secondly, based on the results of a survey of a representative sample of entrepreneurs in Podlasie Province (North-west Poland) their opinion on the importance of leasing as a form of enterprise support was presented. The conducted research has shown that leasing is a willingly chosen source of financing business activity. According to entrepreneurs, favorable financing conditions as well as understandable and easy procedures turned out to be important properties, characteristic of leasing. The results of the conducted research provide knowledge about the advantages, disadvantages, availability and profitability of leasing, noticed by entrepreneurs in the studied region. They are of pure scientific and application significance, making it possible to predict the nature of the leasing market in Poland in the near future.

**Keywords:** enterprise, financial support, leasing, leasing market

### **Introduction**

The development of enterprises requires permanent investment and searching for sources of effective support for business activity, regardless of whether the enterprise is just entering the market or has been operating on it for many years. Therefore, entrepreneurs considering new development opportunities look for appropriate sources of support for the activities of their enterprises. One of the sources of finan-

cial support for enterprises is leasing. This service first appeared in the 1950s in the United States. Its name comes from the English word *lease*, meaning rent, but unlike them, this service is inherently related to the credit function. There are many different definitions of this method of financing in the literature, they differ slightly, leaving the main assumptions unchanged [Grzywacz 2020, pp. 14–18].

In European countries, the use of leasing developed in the 1960s, and the first company dealing with this activity was established in 1962 in the Federal Republic of Germany. In Poland, the first enterprises of this type began to appear only at the beginning of the 1990s, the first was the European Leasing Fund established in 1991. Initially, the subjects of renting these companies were mainly passenger cars, but after a few years it became unprofitable due to the changes introduced in 1993 in tax law. Later, leasing gained popularity mainly in construction industry. However, nowadays more and more business entities in Poland decide to use this form of obtaining capital and it is widely used in almost all industries [Grzywacz 2020, pp. 14–18].

The aim of the study is an attempt to define the significance and role of leasing in financing economic activity of enterprises in Poland. Firstly, on the basis of the literature review, the essence, types, advantages and disadvantages of leasing were presented, and an attempt was made to assess the current market of leasing services in Poland and the prospects for its development. Secondly, based on the results of a survey of a representative sample of entrepreneurs in Podlasie Province (North-west Poland) their opinion on the importance of leasing as a form of enterprise support was presented. The main hypothesis was formulated in the study, which presents a presumed nature of the problem under consideration. It is as follows: Leasing is an important source of financing for enterprises and is considered by a predominant part of entrepreneurs as a satisfactory form of financial support for business activity. The conducted research is theoretical and empirical in nature and aims to verify the hypothesis. In the research the hypothetical-deductive and inductive methods were used.

### **Leasing as a Source of Financing Enterprises**

Presenting one typical definition of leasing is rather difficult. The reason for this is the existence of many forms of leasing, as well as often different legal norms regarding the discussed source of financing enterprises. However, leasing typically refers to a contract concluded for a fixed period of time during which one of the entities, by paying the required fees, can use the fixed assets that are made available to it by the other entity. Moreover, when analyzing various definitions of leasing presented in the literature, its main property can be noticed. It concerns the fact that there is an opportunity to use the leased object against payment, but there is no obligation to purchase it [Cicirko, Russel 2008, pp. 13–15].

In economic practice, there are two forms of leasing, financial and operational. When choosing the form of leasing, companies most often take into account the duration of the leasing transaction, the amount of leasing fees and the nature of the financial burdens on the parties to the leasing contract. Financial leasing, often referred to as capital leasing, is a contract whose duration is similar to the depreciation time of the item, i.e., time of the economic use of the item. Amortization write-offs, as in the case of a loan, are made by the user, and the costs of obtaining income are the interest part for him. Most often, after the expiry of the financial lease agreement, ownership is transferred to the lease taker. This form applies to medium and long-term contracts [Starzyński 2021, pp. 785–794].

Another form is operational leasing, also known as current or operating leasing. It consists in putting a given transaction entity into use, usually for a period shorter than its economic use. Thus, it may be leased multiple times, which usually means the short-term nature of the lease agreement. This has an impact on an increase in costs of obtaining income, which reduces the tax base by the costs of lease installments paid [Panfil 2008, p. 253]. Leasing can also be classified according to the type of leased item. A distinction is made between the leasing of movable property, real estate, unique goods and consumer goods [Panfil 2008, pp. 39, 41].

Economic practice has created an additional solution, which is leaseback. It can apply to both operating leasing and financial leasing. Its objectives are mainly to improve the company's financial liquidity, convert the company's assets and release the frozen capital without losing control over the subject of the contract. Leaseback can be used when the user is also the original owner of the subject of the contract. The first part of this transaction consists in the fact that the user sells the item to the financing party under a contract of sale. The next stage is the conclusion of a leasing contract, on the basis of which the lessee (user) uses a given item [Kalińska 2018]. There is also direct and indirect leasing. In direct leasing, the producer of a given good personally provides leasing services. In other words, the manufacturer, in addition to offering customers to buy their goods, also allows the option of leasing them. Indirect leasing is based on the fact that the good produced by the producer is purchased by the company that provides leasing services and only transferred to the lessee by it. Interestingly, there may be three or four entities in it. When there is a fourth entity providing funds for the purchase of the leased asset, we can talk about the so-called leverage lease [Cicirko, Russel 2008, pp. 18–20].

Leasing, like other forms of supporting enterprises, has both advantages and disadvantages. The most frequently indicated advantages that leasing gives the user is the increase in the liquidity of the company's funds, achieved thanks to the fact that leasing investments are fully financed from the lessor's funds, i.e., from external funds. Therefore, part of the company's working capital may be allocated for other purposes. In addition, leasing also saves time for the lessee, because all the formalities related to this contract are arranged by the lessor [Cicirko, Karmańska, Russel 2014,

p. 30]. Panfil [2008, p. 253] lists the advantages of leasing for entrepreneurs in connection with the reduction of the tax base by the costs of paid leasing installments. The main advantage of leasing for Biernat, Gronek [Biernat, Gronek 2018, p. 154] are tax benefits, ease of entering into transactions and a higher probability of obtaining a source of financing compared to a loan. The literature also indicates the benefits that the state obtains from leasing transactions, which affects the intensity of economic processes. They include [Snopczyński 2000, p. 25]:

- stimulating the investment boom, which in turn has a positive impact on growth economic,
- involvement of financial institutions (e.g., banks) in economic activities gives greater guarantees of security and control of the destination of funds spent,
- controlling the process of accelerating the recovery of companies' property and lifting technological level through easier access to technical novelties, which affects the competitiveness of companies on global markets.

A leasing transaction, like any other financial operation, has disadvantages. The negative features for the user include [Cicirko, Karmańska, Russel 2014, p. 32]:

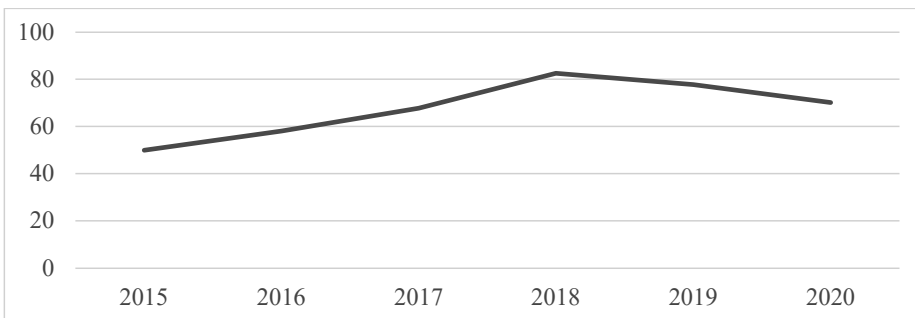
- unstable state tax system, which makes the profitability of the leasing service dependent on the interpretation of regulations by tax authorities and court decisions;
- high cost of leasing, resulting from the necessity to cover all costs of the lessor related to the given contract and ensuring a responsible profit rate;
- depriving the lessee of the ownership of a property that bears full risk, both in terms of price and in property, and the breach of the leasing contract has serious consequences, even the lessor's right to terminate the contract.

### **Development and significance of leasing in enterprise financing**

Leasing in the Polish economy appeared in the early 1990s and began to develop rapidly, as evidenced by the amounts of lease agreements concluded [Kowalska, Baran, Kowalski 2014, pp. 15–20]. Several factors contributed to the rapid development of leasing in Poland. The main ones include the clarification of the leasing contract in the Civil Code in 2000, the inclusion in 2002 in the Accounting Act of the rules for including leasing in the accounting books, as well as information on the possibility of reducing leasing fees by VAT [Grzywacz 2020, p. 148]. In the first years of using leasing, nearly 600 leasing companies operated in Poland. Over time, this number began to decline. For example, it is estimated that in 2005 leasing services were offered by 40 entities. The decrease in the number of leasing companies was due to the growing concentration of the leasing industry. Currently, there are over 100 entities on the Polish market offering the discussed method of financing. The main ones in-

clude “PKO Leasing SA”, “Idea Getin Leasing Group” or “Europejski Fundusz Leasingowy SA”. Interestingly, in 2018 the ten largest companies providing leasing services in Poland covered investment costs amounting to PLN 55 billion. For comparison, amount granted to companies for loans in the same year was equal to PLN 340 billion [Kowalska, Baran, Kowalski 2014, pp. 15–20]. When analyzing the development and significance of leasing in Poland, one should mention the investment costs covered by this form of financing over the years. As indicated by the data of the Polish Leasing Association, from 2003 the leasing market in Poland clearly began to develop [www.leasing.org.pl, access as of 15 January 2022]. This was largely due to the accession of Poland to the European Union in 2004 and the availability of EU capital at the same time. The results of the leasing industry visibly worsened with the onset of the global economic crisis in 2008, which significantly slowed down the market and caused a slowdown in investments. The years 2013–2014 [Nesterowicz, Nesterowicz 2020, p. 254] are considered to be the moment when leasing returns to the development path. According to the data of the Polish Leasing Association, in 2015 the leasing industry financed investments amounting to nearly PLN 50 billion, which indicates their increase in relation to the previous year by PLN 7 billion. In the following years, as illustrated in Graph 1, this tendency was maintained. In 2019, the amount of new leasing contracts decreased compared to the previous year. The amount of financing was PLN 77.8 billion, which was a decrease by PLN 4.8 billion, i.e., 5.8% compared to the previous year. The reason for this situation can be found in the economic slowdown caused by the financial crisis. In 2020, this trend continued, which should be attributed to the emergence of the COVID-19 pandemic [www.leasing.org.pl/pl/aktualności/2020/leasing-hamuje-odpoczatku-roku, access as of 5 December 2020].

Graph 1 The amount of investments financed by the leasing industry in Poland in 2015–2020 (in PLN billion)



Source: Own study based on data from the website: Polish Leasing Association (2020, May 10)

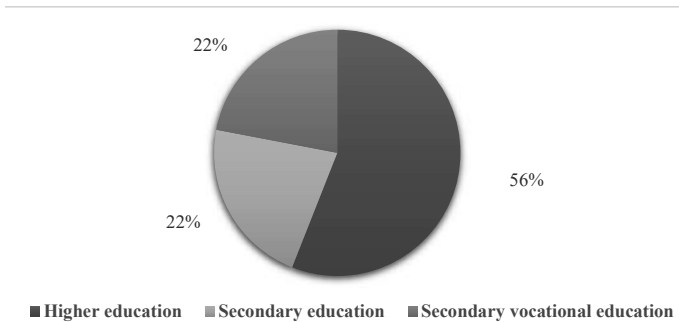
It should also be added that the largest part (47.5%) of products financed by leasing companies in 2020 were light vehicles. Machines and other devices were ranked second – accounting for 29.1%. The third position was taken by heavy vehicles, accounting for 17.8% of the discussed structure. The smallest share in the financed items had other products, such as airplanes – 4.4%, and real estate – 1.2% [Polish Leasing Association 2021, 15 February]. Based on the results of numerous studies, it can be concluded that leasing stimulates investment by making funds available to entities that are unable to obtain them otherwise, and therefore significantly supports the economy. According to the data of the Polish Leasing Association, in 2020 enterprises from the SME sector were the most numerous among the users of leasing services. Their share totaled 73.5% (including 53.6% micro and 19.9% small enterprises). The share of entities with a turnover higher than 20 million (medium-sized companies, large and some small) was 26% [www.leasing.org.pl/pl/aktualnosci/2021/w-2021r-rynek, access as of 18 June 2021]. In the opinion of the European Commission, leasing remains the most important source of financing for Polish companies from the SME sector, this source indicates nearly 50% of Polish entrepreneurs. Leasing is a mechanism that can be easily adapted to a given company by concluding a suitably flexible contract. Moreover, its use drives technological development, and therefore it contributes to the creation of new jobs [www.leasing.org.pl/files/uploaded/ZPL%20Raport\_Final.pdf, access as of 10 December 2021]. The second most frequently indicated support instrument is the credit line, and the third – subsidies. The most important problems that entrepreneurs are currently struggling with in accessing support include HR, regulatory and other problems – including problems related to the effects of the COVID-19 pandemic. Currently, despite the difficult economic situation and fewer investments, 63 percent of Polish entrepreneurs consider leasing to be the most important source of financing and consider using it in the future. Entrepreneurs operating in Finland (63%) and Estonia (62%) think similarly, with a positive assessment of this instrument throughout Europe [www.leasing.org.pl/files/uploaded/ZPL\_Leasing%20najbardziej%20istotny,%20ros%CC%81nie%20znaczenie%20dotacji, access as of 10 November 2021].

### **Entrepreneurs' Opinion on Leasing**

In order to obtain entrepreneurs' opinions on the importance of leasing in financial support for economic activity, a survey was carried out on a representative research sample of entrepreneurs from Podlasie Province (North-west Poland). The research was conducted in May 2021. The survey questionnaire consisted of two parts. The first concerned the general characteristics of the surveyed entities, and the second contained questions related to the assessment of leasing companies' financing. The questions included in the survey were both single and multiple choice. The selection of the

research sample was random, the questionnaire was anonymous and sent to respondents via e-mail. The research sample consisted of 50 respondents, all of them were entities managing the enterprise. The only criterion for selecting the respondents was their origin from the Podlasie Province. Among the respondents, the largest group were people with higher education (56% of all respondents). People with secondary (22%) and secondary vocational education (also 22%) were slightly less frequent.

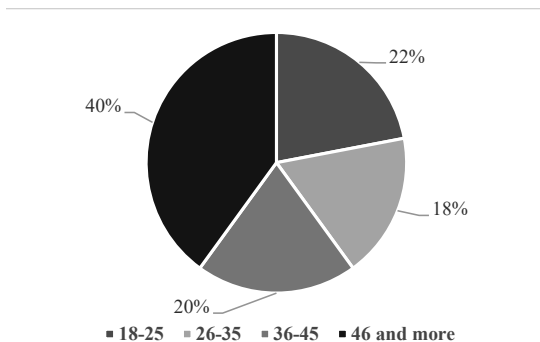
Graph 2. Structure of the surveyed enterprises in terms of education of their owners



Source: Research results

The age of 40% of entrepreneurs participating in the survey was between 46 and more. The respondents aged 18 to 25 accounted for 22% of the research sample. The third place was taken by the respondents aged 36–45 and their number was 20%. The smallest group (18% of respondents) in terms of age were people aged 26 to 35 years.

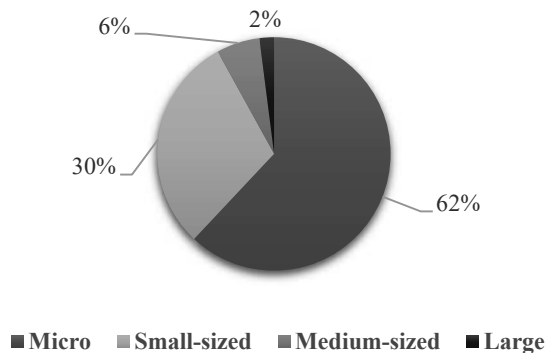
Graph 3. Structure of the surveyed enterprises in terms of age of their owners



Source: Research results

Most of the respondents run micro enterprises (62%). Small enterprises were run by 30% of the respondents. The smallest group of respondents were owners of medium-sized (6% of the respondents) and large (2% of the respondents) enterprises.

Graph 4. The structure of the surveyed enterprises in terms of their size



Source: Research results

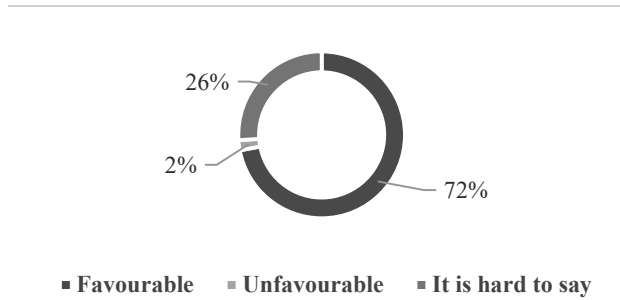
The largest proportion (64%) of respondents' enterprises are located in urban areas. Enterprises located in the urban-rural area accounted for 22%, and in the rural area – 14% of all surveyed entities. Moreover, in the structure of the surveyed enterprises, 54% of them operated on the market for over 10 years, and 22% of them operated on the market for less than 2 years. The smallest group of 12% were enterprises operating on the market for 2 to 5 years.

## Results

The results of the conducted research showed that the overwhelming majority of the surveyed entrepreneurs (72%) considered them an attractive (beneficial) source of supporting business activity. 26% of the respondents could not answer in the affirmative to this question, 2% of the respondents assessed this support instrument negatively (Graph 5). Moreover, it was found that entrepreneurs with higher education more often appreciated this source of financing than entrepreneurs with secondary or secondary vocational education. Nearly 79% of respondents with higher education assessed leasing very positively as a source of support for their activities. On the other hand, among the respondents with secondary or secondary vocational education, this view was expressed by almost 64% of the surveyed entrepreneurs.



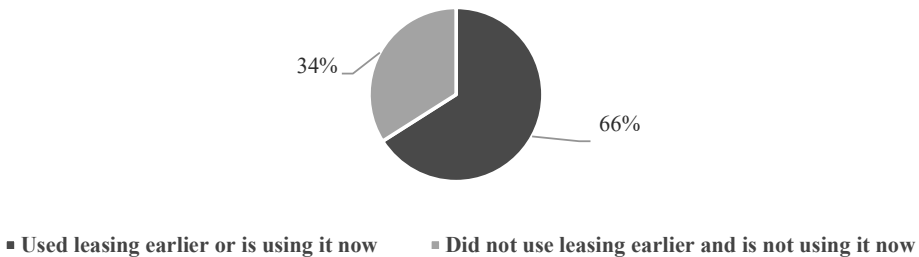
Graph 5. Assessment of the attractiveness of leasing in the opinion of the surveyed entrepreneurs



Source: Research results

The conducted research has shown that leasing is very popular among the studied entrepreneurs. It was found that in the structure of the answers obtained from the surveyed respondents, 66% of them currently use or have used leasing in the past. Such opinions were expressed by about 75% of the entrepreneurs in various age groups, except for the oldest entrepreneurs in the 36–45 age group. In this age group, only 40% of the respondents gave a positive answer about the use of leasing.

Graph 6. The frequency of using leasing by the surveyed entrepreneurs



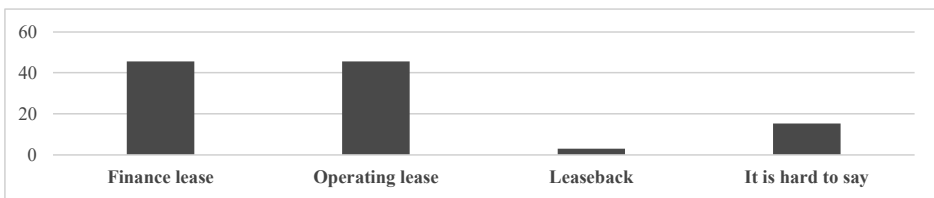
Source: Research results

Moreover, an affirmative answer to the question whether leasing is or has been used in a given company was most often recorded in the group of respondents whose company has been operating on the market for 2 to 5 years (83% of the answers), as well as in 70% of young enterprises (up to 2 years) and entering the market. The use of leasing was indicated slightly less frequently by the surveyed entrepreneurs operating on the market for 5 to 10 years (67%) and 10 years and more (63%). The results of the research also allow to determine the impact of the location of the enterprise (type

of area: urban, rural, urban-rural) on the perception by entrepreneurs of the attractiveness of leasing as a source of supporting business activity. It has been shown that leasing is more often used in enterprises located in urban areas (75% of the surveyed entities) than in urban-rural (55%) or rural areas (43% of entities). Among the surveyed respondents, 79% of those who had experience in financing a company with leasing declared that they intend to use this source of financing also in the future. The remaining 18% could not answer this question, while 3% of the respondents definitely replied that they did not intend to use this source of support in the future.

Two types of leasing, i.e., financial and operational ones, were used by the respondents similarly often, i.e., in about 50% of the surveyed group of entrepreneurs (Graph 7). Leaseback was used by 3% of entities, and 15.2% of respondents were unable to give a specific answer to this question.

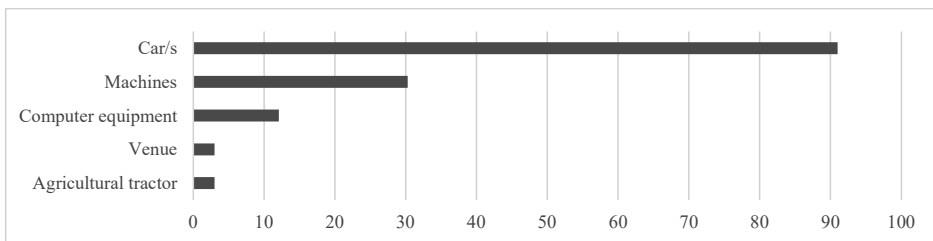
Graph 7. Frequency distribution (%) of the types of leasing selected by the surveyed entrepreneurs



Source: Research results

It was shown (Graph 8) that entrepreneurs who use or have used leasing indicated a car as the leased product most often (90%), while only 30% of them leased machines and devices, even less (12.1%) leased computer equipment, and only 3% of them leased premises (3%) or agricultural tractors.

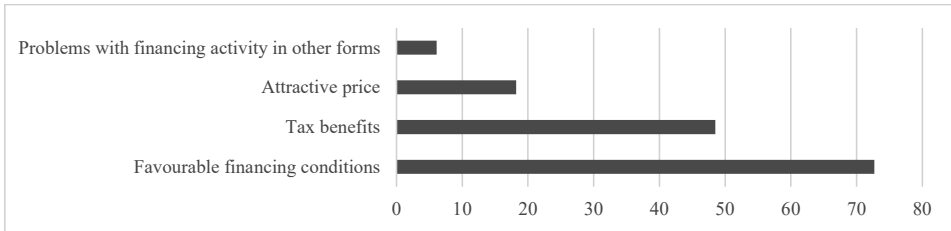
Graph 8. Frequency distribution (%) of leased products by the surveyed entrepreneurs



Source: Research results

The most frequently recognized reason for choosing leasing by the surveyed entrepreneurs was the favorable financing conditions with this source of support (Graph 9). Nearly 73% of respondents who use or have used leasing provided such an answer. Tax benefits as the reason for choosing leasing were indicated by 48.5% of the respondents, and the leasing prices were indicated by 18.2%. The least numerous group (6%) were respondents for whom the reason for choosing leasing was the unavailability of other forms of financial support.

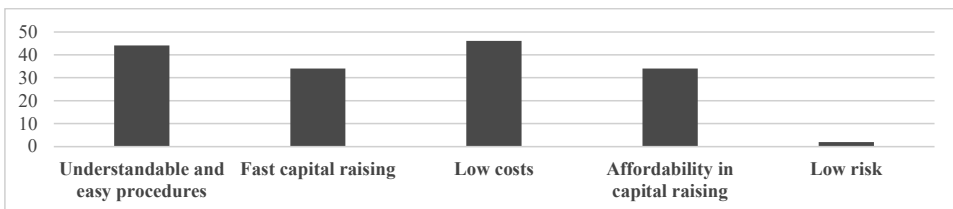
Graph 9. Frequency distribution (%) of the reasons for choosing leasing as a source of financing for enterprises by the surveyed entrepreneurs



Source: Research results

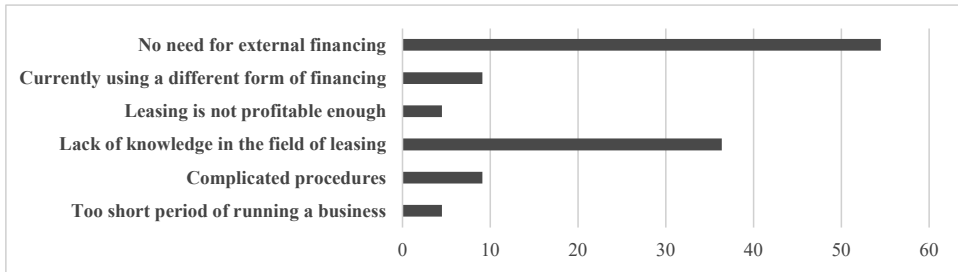
About 46% of the surveyed entrepreneurs indicated that an important facilitation for them when choosing leasing as a source of business support is the low cost of this form of support (Graph 10). Understandable and easy procedures were indicated by 44% of the respondents. For 34% of entrepreneurs, speed and affordability in obtaining capital were important (both facilities were indicated by 34% of respondents). In the answer “other”, low risk was indicated as an important feature distinguishing leasing financing from other forms of financing with this form of support.

Graph 10. Frequencies (%) of important facilities in financing enterprises through leasing indicated by the surveyed entrepreneurs



Source: Research results

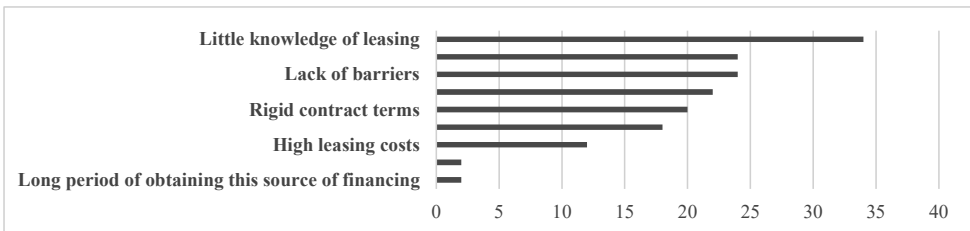
Graph 11. The frequency (%) of reasons for not using leasing indicated by the surveyed entrepreneurs



Source: Research results

The study results showed (Graph 11) that the main reasons for the lack of interest in leasing among entrepreneurs who participated in the study were the lack of need for external financing and little knowledge about this source of support: this answer was indicated by 55% and 36.4% of respondents, respectively. The surveyed entrepreneurs rarely indicated the current use of any other form of financing and the complicated procedures related to access to this source as the reason for not using leasing (both reasons were indicated by 9.1% of the respondents). The reason for not using leasing was too short period of running a business for only 4.5% of the surveyed entrepreneurs.

Graph 12. The frequency (%) of leasing financing barriers indicated by the surveyed entrepreneurs



Source: Research results

The most frequently indicated barriers in leasing financing noticed by entrepreneurs in Podlasie Province included: little knowledge about leasing (34% of indications), fear of difficulties with repayment (24% of indications) and the fact that leasing does not provide the user with ownership (22%). Slightly fewer respondents indicated rigid contract terms (20%), complicated procedures related to leasing (18%) and high leasing costs (12%) as the barriers to financing with this source of support (Graph 12). Only 2% of the respondents indicated the low profitability of leasing and

the long period in obtaining this source of financing as the main barrier in financing business activities by leasing. On the other hand, among the surveyed entrepreneurs, 24% did not see any barriers in financing economic activity by leasing.

## **Conclusion**

The results of the study showed that leasing is an important source of financing for enterprises. The frequency of using leasing is quite high, as evidenced by the results of the survey conducted among entrepreneurs in Podlasie Province. The main reason why entrepreneurs choose this source of support are favorable financing conditions. The vast majority of surveyed entrepreneurs who use or have used leasing in the past intend to do so in the future. This indicates full acceptance of leasing by entrepreneurs and recognizing it as a satisfactory form of financial support for business activity. Thus, the research hypothesis put forward in the introduction to the paper has been positively verified.

The study also shows that the location of the enterprise influences the attractiveness of the perception of leasing by entrepreneurs. Entrepreneurs running a business in urban areas saw the attractiveness of leasing more often than in rural and urban-rural areas. The reasons for this are lower access of entrepreneurs in rural areas to information and knowledge about leasing as compared to urban areas. Important properties characteristic of leasing turns out to be: low costs resulting from the use of this form of financing, as well as understandable and easy procedures. An important issue, often indicated by entrepreneurs, is their low level of knowledge about this source of business support. This fact is a serious barrier to leasing financing. Therefore, there is a permanent need to broaden the knowledge and raise public awareness about the available sources of financing, as well as the possible benefits or threats of their use in the enterprise. An attempt to broaden the awareness of available solutions in this matter has a chance to significantly affect the development and increase in the competitiveness of enterprises in Poland, and thus – the entire economy.

The essential problem related to the above-mentioned topics is therefore the permanent need to deepen the knowledge of traditional and alternative financing options. An attempt to broaden the awareness of entrepreneurs about the available solutions in this sphere of the economy has a chance to significantly affect the activity of the SME sector, and thus – the entire economy.

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